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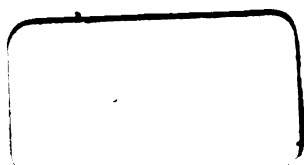
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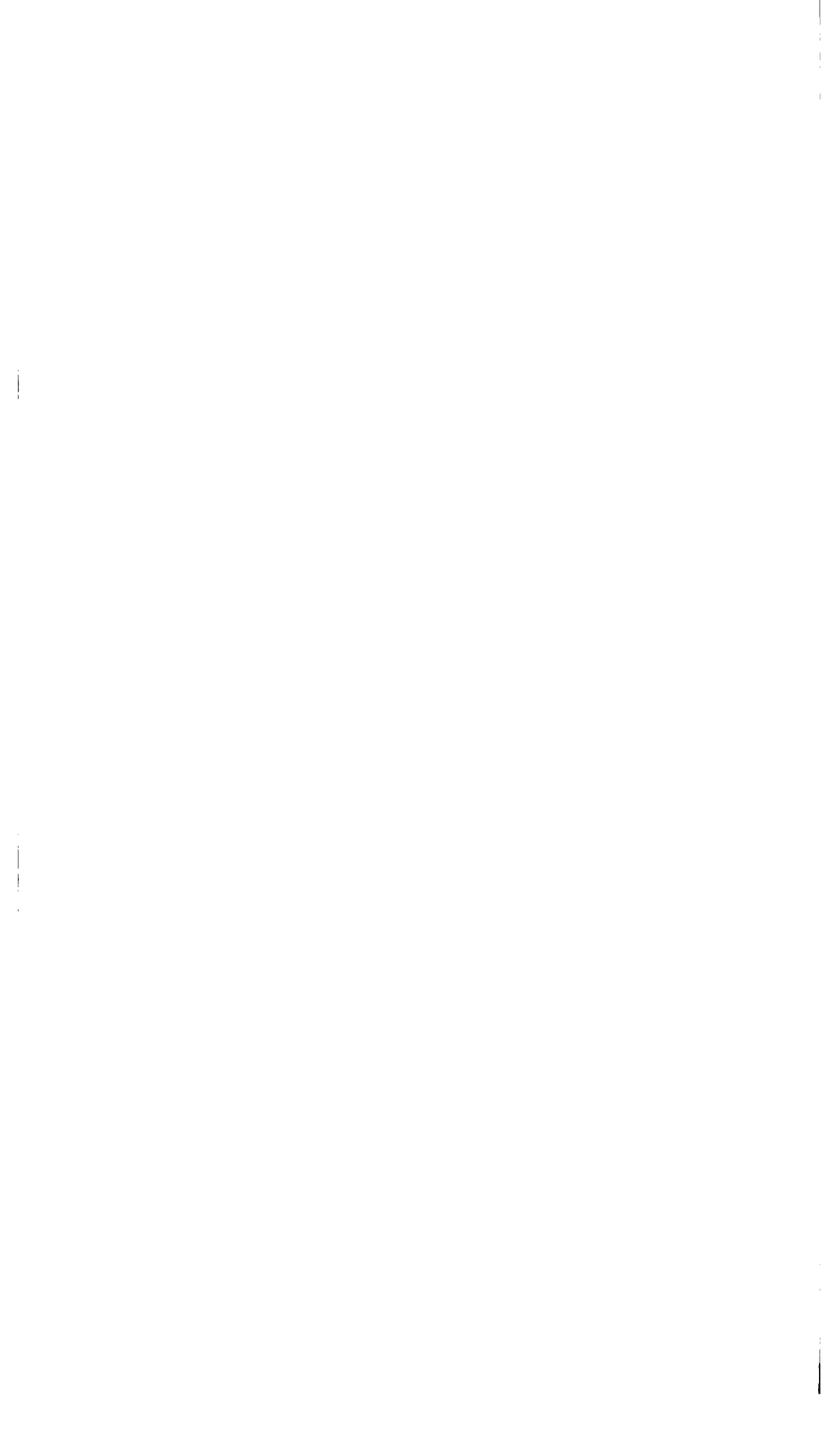
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# **BANKING AND CURRENCY**

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## **HEARINGS**

BEFORE THE

## **COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE**

SIXTY-THIRD CONGRESS

FIRST SESSION

ON

### **S. 2639**

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL  
RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY,  
AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER,  
AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF  
BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES.

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STATEMENT OF

**FRANK A. VANDERLIP**

PRESIDENT OF THE NATIONAL CITY BANK  
OF NEW YORK, N. Y.

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OCTOBER 8 AND 9, 1913

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WASHINGTON  
GOVERNMENT PRINTING OFFICE

1913

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman.*

GILBERT M. HITCHCOCK, Nebraska.

JAMES A. O'GORMAN, New York.

JAMES A. REED, Missouri.

ATLEE POMERENE, Ohio.

JOHN F. SHAFROTH, Colorado.

HENRY F. HOLLIS, New Hampshire.

KNUTE NELSON, Minnesota.

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COE I. CRAWFORD, South Dakota.

GEORGE P. McLEAN, Connecticut.

JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk.*

WEDNESDAY, OCTOBER 8, 1913.

COMMITTEE ON BANKING AND CURRENCY,  
UNITED STATES SENATE,  
*Washington, D. C.*

The committee assembled at 11.05 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

The CHAIRMAN. Mr. Vanderlip, the committee will be glad to hear from you in regard to this bill, and I will ask that you give the stenographer your banking affiliations.

**STATEMENT OF FRANK A. VANDERLIP, PRESIDENT OF THE  
NATIONAL CITY BANK, OF NEW YORK, N. Y.**

Mr. VANDERLIP. I am president of the National City Bank, of New York. I have other banking affiliations as director. I suppose you only mean my official position?

The CHAIRMAN. I think that will suffice, unless the committee care to have the other affiliations. We will be glad to have your views on this bill.

Mr. VANDERLIP. I feel that there are two important things to be accomplished by any legislation—the mobilization of reserve and the creation of an elastic currency. I think this measure has gone a long way toward that, but has failed of accomplishing both of those things. I feel that the mobilization of the reserve has got to come about by what is practically a single reserve reservoir, and that the 12 reserve reservoirs which have been provided in the bill will not practically bring that about. I believe a single reservoir would be best, and any reduction from 12 will be an improvement. I think if you could reduce it to 4, it would probably work pretty nearly as well as 1, and would perhaps have some advantages over 1.

The CHAIRMAN. Is your reason for that because you think that if the regions were small the demands upon a particular region at seasonal periods would be too exacting on the local reserve bank?

Mr. VANDERLIP. Yes. There is no spreading of the conditions in the small regional reserve center. If the demands on all banks were of the same character and came at the same time there would be no object in having such an arrangement as we are here providing. The advantage of this comes through one bank having a strain on it at a time when another bank is flush, and an averaging of those conditions. It follows from that that if you establish a regional center in a geographical location, where all of the trade conditions in that circle are the same, where all the demands are coming upon the banks at the same time, and is of largely the same character, you will defeat your purpose. You will have a condition where there will be great danger of exhausting the resources of that bank, because conditions are the same throughout the territory of the bank.

Senator HITCHCOCK. Do you care to be interrupted as you go along, or do you prefer to complete your statement?

Mr. VANDERLIP. I am perfectly willing to be interrupted.

Senator HITCHCOCK. Then I would like to ask you whether it is not true that in all European systems—take, for instance, France—the conditions are practically the same throughout that country in which that central bank is the central reservoir. There is no diversity of interest there, where they have a very small geographical extent of territory.

Mr. VANDERLIP. There is diversity over the whole nation there whatever it is, and it must be considerable. You can not say that France, speaking from the point of demands for borrowing at the bank, is an absolutely homogeneous country. There is the wine-producing district, the agricultural districts, the manufacturing districts, and their demands all come at different times and are of a different character. The one central bank there covers all those demands and has the advantage of a flush condition at one point and a strained condition at another and equalizes those conditions.

Senator HITCHCOCK. But geographically France is not larger than some of our States.

Mr. VANDERLIP. But in its business requirements it is certainly larger than any of them, and those requirements are very seasonal. With us, however, the seasonal variation is very pronounced according to geographical location.

Take the central bank established in the territory around New Orleans. The borrowing there will come from cotton raisers very largely. It will all come at the same time. The pressure on New Orleans comes at one season of the year. Now, if that can be equalized by including in the territory of the New Orleans bank territory that is not similar in its climatic conditions or in its industrial or manufacturing conditions, so that the pressure for loans in one part of that territory comes at one season and in another part at another, you will have a far sounder situation and a situation that a reserve bank can stand up under; whereas if you make these areas too small so that they are too similar in condition, you will endanger the bank and make it almost certain that it will have to go to the larger bank for help.

Senator HITCHCOCK. The reserve bank still has the resource of procuring currency.

Mr. VANDERLIP. But it may be credit, not currency, that it wants and it must have the reserve of gold to support the currency. If the bank loans down to 33 per cent it can not get any more currency until it gets some more gold.

It seems to me there are many impressive reasons why there should be a fewer number of reserve districts.

The CHAIRMAN. If there is a certain number, would you think advisable to have a Federal reserve board with power to require one branch to accommodate another?

Mr. VANDERLIP. The power of the Federal reserve bank to force one bank to rediscount for another is obnoxious, but it is absolutely necessary if we are to have the benefits of the central reservoir and if you are to have a number of regional banks. A central reserve is the desideratum. That is what we must have. You have planned here to organize 12 banks, and recognizing that after all 12 res-



oires will not do—that there must be one—then you undertake to pipe those 12 reservoirs together, and properly so. You must pipe them together. You undertake to pipe them together by giving control to this Federal board to force loans. I think the Federal board must have that authority, obnoxious as it is. The obnoxious character of it would disappear entirely with one central bank. It will disappear in a measure as you reduce the number of central banks. I believe that with four banks the management of those four banks could get together with a sufficient understanding of mutual conditions so that there would not have to be any arbitrary use of that power, but power must be lodged with the Federal board, because you must pipe the banks together, and you must make, in effect, one central reserve reservoir.

Senator HITCHCOCK. Would not that same argument go to show, really, there ought to be one central reservoir for all Europe, and that all those countries should unite?

Mr. VANDERLIP. It possibly might be better; but there are conditions of language and conditions of government which would prevent that. It would perhaps be better to have one government in Europe; but we would hardly undertake that.

Senator HITCHCOCK. Is it not a fact, however, that funds flow from one bank to another, according to the demands of trade and local conditions? If there is a stronger demand for money or credit in one country than another, is there not a tendency for the flow to go in that direction?

Mr. VANDERLIP. There is a tendency and it is a pretty free flow.

Senator HITCHCOCK. If that is the case in Europe, why would not that flow naturally result between these 12 banks if it is made voluntary instead of compulsory?

Mr. VANDERLIP. I think there would be very little likelihood of a voluntary flow for this reason: Let us say the condition at New Orleans, as we have been using that town as an illustration, becomes loose, while in New York it is comparatively easy. The individual banks in New Orleans would then probably borrow from the individual banks in New York. I think the management of the Federal reserve bank in New York would say that that is the natural way or New York to relieve New Orleans; that is the natural channel through which credit should flow, from a community where the rate is low to a community where it is high, through individual banks. They would say, if the individual banks in their judgment did not think it wise to loan to the individual banks where the rate is higher, then probably it is not wise for us, holding the reserves of the individual banks, so to loan." The individual banks would be perfectly free to loan to the individual banks in a high-rate community, if all the conditions of credit and business outlook were such as to warrant their doing so? Therefore the managers of the reserve bank in New York, or wherever a low-interest rate was prevailing, would feel, so far as it was wise, that the individual banks, members of their association, should make the loans to individual banks, members of the other association. But it would not be wise as a common practice for the managers of the reserve bank themselves to loan those funds and deplete its reserves for that purpose.

Senator HITCHCOCK. But you would empower a body to order it or do so?

Mr. VANDERLIP. I would; yes. I would do it with great regret. It is obnoxious to think of forced credit, but you have got to obtain, in effect, a central reservoir, and you can not obtain it unless you can bring the water level of the supply reservoirs together.

There are other reasons why I think there should be a fewer number of reserve banks. Some of the gentlemen here regret to see the importance of New York emphasized. To anyone holding that view I would like to call attention to the fact that the more reserve banks you have the more you will emphasize the importance of New York. New York has a fixed minimum of size. You can not very well divide New York into two central reserve banks, and the greater the number the smaller will be all the banks outside of New York and more pronounced will be the predominance of New York. Then I think there is this further argument: The Federal reserve board will presumably be subjected to some political pressure—not political pressure; I do not mean political pressure, I mean local pressure—pressure arising from local conditions. That pressure would be very much relieved if the Federal reserve bank covered a wide territory, and thus became subject to the pressure of diverse local conditions and harmonized that pressure. If there is a reserve bank, as we say, in New Orleans, with a territory in which conditions are uniform, the pressure from that locality upon the Federal reserve board to compel loans from other banks would be governed simply by their view of their own local conditions. Therefore, if that Federal reserve bank in which New Orleans is located took in a very large territory where there were varied conditions, the reserve bank instead of the reserve board would be subject to the pressure from these different localities, and they would be harmonized in the bank, and the reserve board here in Washington would only have to consider the larger and in a less degree these local conditions.

Senator HITCHCOCK. Now, Mr. Vanderlip, as it is now, the bankers of the central reserve cities, and especially the bankers of New York City, respond voluntarily to these various seasonal needs in various parts of the country. Why, by the same argument would not the reserve bank of New York City respond voluntarily, by analogy?

Mr. VANDERLIP. They respond now voluntarily, and they will continue to respond voluntarily to as great a degree as it is wise for New York to be depleted. But the managers of the New York bank, I believe, would feel that the judgment of how much New York should loan to other places should rest with the individual bankers. I think these bankers reached a point where they would not loan any more; it would be hardly the part of the organization holding their reserves to deplete these reserves by loaning.

Senator HITCHCOCK. If it is the custom of the banks in New York City now to make these advances to the various parts of the country when the seasonal demands arise, it seems to me when these New York banks are united in a reserve bank, holding the stock in the reserve bank, they would have then, jointly, naturally the same power that they have now individually.

Mr. VANDERLIP. They are not united to do a general business; they are united to hold their joint reserves. General business will still be done by the individual banks. It is, I trust, no part of this plan that general business is to be done by these Federal banks. In normal times the Federal reserve banks ought not to have any large

amount of rediscounts. Their power should be conserved. They should run with very high reserves under normal conditions, and they should never have money making as a factor in their conduct. That point, by the way, I think is very important and if I may digress a moment, I believe the plan for dividing the earnings, after 5 per cent is paid upon the stock, in the proportion of 60 per cent to the Government and 40 per cent to the depositors of the bank, is absolutely wrong. There should be no division of earnings after the stock has received a proper dividend. It may be, and I believe it is, wise to give the stock 6 per cent instead of 5, but it should have no further participation in the profits. There should never be that factor in the management to make it endeavor to earn profits. The profits should all go to the Government after the interest has been earned on the capital stock for which the banks have subscribed. If there were to be a division, this method of division is wrong. It amounts to a payment of interest on deposits. The division is to be made of profits on the basis of the average deposit which a bank maintains. That is merely another way of saying we will give interest on deposits. You might find a bank under a strong incentive to work for profit in order to pay interest on its balances. The theory of the division is wrong, and any division at all is wrong.

Senator REED. You think, then, that after there has been a reasonable interest paid upon the money contributed by the banks, in the way of capital or reserves, all of the money should go to the Government?

Mr. VANDERLIP. I am perfectly clear on that. I believe a great element of danger will enter in the management of the banks if any other course is adopted.

Senator SHAFROTH. Do you believe that these reserve banks will earn anything above the 5 or 6 per cent?

Mr. VANDERLIP. I think it is impossible to calculate that. From such calculation as I have been able to make, I would rather doubt—well, no; let me say it is impossible to state. There are too many unknown elements. The Federal board is permitted to charge the banks interest on the Government deposits. How do we know what they will charge? They will pay it into the profits, whatever it is. The Federal board is permitted to charge so-called interest on the notes. What will the charge be? I do not know; nobody knows. It is impossible to figure the profits of these banks.

Senator SHAFROTH. It can be made profitable, or make really a very little profit, depending upon the administration they have?

Mr. VANDERLIP. Yes, sir.

Senator SHAFROTH. One person here the other day said it was impossible for any of these banks to make any money whatever, even to make the 5 per cent.

Mr. VANDERLIP. Well, that, of course, is hardly a correct view.

Senator SHAFROTH. Yes; it can not be, from the fact that the Government alone will have an account there, at the present time, of \$285,000,000. Then the reserves of the banks amount to \$400,000,000 or \$500,000,000, and then this capital which is paid in amounts to \$105,000,000. It is impossible to conceive that with \$700,000,000 or \$800,000,000 no return whatever can be made from them. But I would like to have your view; and, of course, as you said, it is a factor.

Mr. VANDERLIP. There ought to be no difficulty in earning the 5 per cent. It is conceivable that the earnings might be very much more than that.

Senator SHAFROTH. Would not the tendency to have a division of 60 and 40 per cent, as indicated in the bill, be to make these banks do business with the regional or reserve banks?

Mr. VANDERLIP. It will have the tendency to put the whole management on a money-making basis. Rather than have them stand in the attitude of conservation, it will put them into the open market for investments at times when they ought to be carrying a very large reserve. Suppose the country bank to-day finds it is in an easy money market. If its customers are not able to absorb its loanable funds it goes into the commercial-paper market and buys commercial paper. In a little while conditions change, and they come around with their hat in their hand and say, "We are sorry; we made a mistake." We ought not to have bought this paper, and we want you to take it off of our hands." Now, we do not want the reserve banks to get into that situation. We do not want them, in case they have 70 or 80 per cent reserve and are under a compulsion to make earnings, to feel they must invest that money, and therefore go into the market, and then, if a change comes, find themselves unable to meet the responsibilities that are really on their shoulders. I am very much opposed to the banks being run for profit.

Senator SHAFROTH. Now, Mr. Vanderlip, one of the great desires of this bank is to provide for the raising and the lowering of the discount in order to influence the flow of gold. Will you give us your opinion as to whether that is practicable under this bill, and whether it is not necessary for a bank to go out into the market and attempt to corral securities or corral money in order to establish a condition of that kind?

Mr. VANDERLIP. The bill is not clear in its definition of the power of the bank to go into the open market. I find two opinions as to what the power of the bank is in that respect. One holds that the bank may go into the open market and buy prime commercial paper, although I believe it says "banker's bill" in the law.

Senator SHAFROTH. What is a "banker's bill"?

Mr. VANDERLIP. "Banker's bill" is really an English term—a bill that has been accepted by a bank, a bill that is drawn against a bank and has been stamped with its acceptance, or a piece of commercial paper that has been indorsed by the bank.

Senator SHAFROTH. Is there much of that paper in this country?

Mr. VANDERLIP. There is none of it in just that form. We have not anything in this country that we could properly designate, I think, as a "banker's bill."

Senator HITCHCOCK. Is an acceptance a banker's bill in Europe?

Mr. VANDERLIP. If it is an acceptance by a bank.

Senator SHAFROTH. You New York bankers ought to know about the way to get this gold into this country better than anybody else. and I would like just to have your views as to how that ought to be done.

Mr. VANDERLIP. In the first place, I would like to see the law made clear as to what the powers are that are given to this bank. It will be very obnoxious to the member banks to have the reserve banks competitors in the open market with them. Possibly that is

necessary. I do not think it is myself, but, as I read the law, I have supposed that the banks could not go in the market and buy paper, except such paper as was indorsed by a member bank. But I am inclined to think I am in error on that point, as I find a good many other people who think the law provides that they could go into the market and buy your notes or anybody's note.

Senator SHAFROTH. I think the bill as originally framed did not take into consideration the necessity for going into the market in order to raise or lower the discount, and I think when attention was called to it they thought they could not establish a rate without that power.

Mr. VANDERLIP. The best way of doing that, in my opinion, has been suggested by Mr. Paul Warburg. He believes that a portion of the present 2 per cent bonds in circulation should be purchased by the Federal reserve banks, and the circulation retired; that these bonds should be converted into one-year notes of the Government, the banks agreeing always to renew those notes for 20 years on each maturity.

Senator REED. What banks do you mean?

Mr. VANDERLIP. I mean the Federal reserve banks. This would give the Federal reserve banks a large amount of one-year Government notes that would employ their money in times when otherwise they might have to compete in the market with member banks thus depleting their reserves, with the result that they would be able to meet their responsibilities properly when a strain did come. But it would give them this power: If they wanted to raise the discount rate, if they believed we were facing a dangerous situation, and that money rates were too easy and that a check ought to be put upon affairs and the discount rate raised, they would be able to sell those notes in the open market and deplete the open market of the reserves, drawing the reserve strength to themselves and disposing of those short-time notes. The effect would be immediate, and the discount rate would of necessity advance.

These notes would also be of great value in the period when gold exports were imminent or were going on and we did not want to lose gold. Such notes as these would be available in any market of the world at the very lowest possible discount rate, and if we were in a position where Europe could demand gold from us and we could not with ease part with the gold at the time, then the banks could sell these notes abroad and liquidate the pressing adverse balance, and in that way retain our gold and bridge over the strain. I believe something can be worked out in that direction which will give the banks the opportunity and the power to control the discount market to an extent. Of course it is only to a limited extent that the banks ever could control the discount market, but it will greatly assist them in controlling the gold movement.

Senator HITCHCOCK. That is a little after the English custom?

Mr. VANDERLIP. Yes; after the "exchequer bill" of the English Government.

Senator HITCHCOCK. Has the Imperial Bank of Germany that same method?

Mr. VANDERLIP. I can not answer positively. I think it has. I know the German Government issues short-term notes.

Senator HITCHCOCK. In the sale of those notes would not the reserve bank always suffer loss?

Mr. VANDERLIP. It would apparently suffer loss, but it would be able to recoup itself by the loans that it would be able to make at a higher rate on the basis of the increasing reserve which it would have. It would sell the notes and bring in the reserve. The result of that action would be the depletion of the reserves of the outside banks and the increase in the rate, and probably this would later compel the outside banks to borrow. The reserve bank would not have to borrow, because it had largely increased its reserve by the sale of the notes, and, I think, in the double operation would recoup itself for the apparent loss of interest on the notes it sold.

Senator NELSON. What rate of interest would you have on those notes?

Mr. VANDERLIP. Three per cent.

Senator REED. Mr. Vanderlip, at the risk of repetition, I want to be sure that I understand you. Your proposition is that the present 2 per cent bonds running now for 20 years should be converted into bonds running for one year—short-time bonds? That is the first proposition?

Mr. VANDERLIP. My proposition is that a portion of them should be converted; some two or three hundred millions should probably be.

Senator REED. Then you doubt that the banks would agree to convert them into long-time bonds?

Mr. VANDERLIP. No, sir; that they, equally with the Federal reserve banks, should agree to accept the one-year notes at each maturity, not to demand payment, but accept in payment the new one-year notes.

Senator REED. That would be all right, as long as the Federal reserve banks hold these notes. But when they sold these notes in Europe to get gold, of course, the notes would then go into the hands of outside parties. What sort of plan would be devised then to avoid compelling the Federal Government, at the maturity of this bond, this one-year bond, from having to go into its Treasury to pay them?

Mr. VANDERLIP. The Federal reserve banks must be under contract to protect the Government from that. They must always stand ready to take new one-year notes to the amount which is necessary to redeem those maturing.

Senator REED. Then, the plan amounts to nothing more than this, that the Federal Government would issue these one-year notes and give them to the banks as a matter of accommodation, to be used by the banks, and the banks be, in turn, compelled to protect the notes at maturity and renew them indefinitely, so long as the Government desired?

Mr. VANDERLIP. Yes. The advantage of that to the bank is that the one-year note of that character would be the very highest type of banking security, whereas the 20-year bond would be an investment security, not a banking security.

Senator REED. I see. Now, how would you first get these bonds into the possession of the banks? The Federal Government now has 2 per cent 20 year bonds out; most of them are held by the banks, and most of them have been utilized for currency issues. What would be the method you would suggest?

Mr. VANDERLIP. The Federal banks would buy at par a certain amount of these 2 per cent bonds that are now owned by the national banks and are at the Treasury as security for national-bank-note circulation.

Senator REED. Would they then retire the national-bank circulation?

Mr. VANDERLIP. They would probably substitute the new notes that are provided under this law.

Senator REED. I will call them asset notes.

Mr. VANDERLIP. Very good. They will substitute those notes. At first they might not have any commercial paper to secure such an issue of notes and they would put these new one-year Government notes under the—

Senator REED (interposing). But we still have not got the one-year Government notes; that is the first step.

Mr. VANDERLIP. Let me see if I can trace the matter. The Federal bank will buy from the national banks some of those 2 per cent bonds.

Senator REED. You mean the National Government?

Mr. VANDERLIP. No; the Federal reserve bank will buy some of the 2 per cent bonds the national bank now holds and has deposited with the Treasury to secure national-bank circulation.

Senator REED. Instantly, then, the currency that was issued upon that bond will have to be retired?

Mr. VANDERLIP. At that moment; yes. It might also be provided at that moment that the Federal reserve bank can take out these new notes, using either the 2 per cent bonds it has just bought as a basis to secure them or a new one-year note, into which it, at the moment, exchanges the 2 per cent bond—the one-year note of the Government.

Senator REED. That goes into the custody of the Government?

Mr. VANDERLIP. Goes into the custody of the Federal agent in the same way as commercial paper.

Senator REED. The one-year Government bonds or the old 20-year Government bonds into the custody of the Federal agent?

Mr. VANDERLIP. Yes. Now, as fast as the Federal reserve bank accumulates commercial paper it could substitute it in the hands of the Federal reserve agent for these one-year notes, leaving the one-year notes free in its hands, where it would be in a position to put them out when it wanted to raise the discount rate.

Senator REED. I am coming to that next step.

I have cleared up in my own mind this method. We have your suggestions on that. Now, the gold is flowing out of the country; we will assume the gold reserves are getting low here. Then you would simply take these one-year notes and send them to Europe and sell them, getting gold and bringing it back in?

Mr. VANDERLIP. Gold, but more probably exchange, which would amount to the same thing, and would stop the flow of gold.

Senator REED. And, then, you would put money in your bank, in the reserve bank, and the reserve bank would raise its rate of interest to the member banks desiring to borrow from it to a point that would recoup any such loss it had suffered by reason of purchasing this gold?

Mr. VANDERLIP. In that particular case it might or might not have a loss. It might be able to sell those on a 3 per cent basis, or it might

not. If Europe was strong and was importing gold it is possible it could sell those notes for less. It would recoup just as you suggest.

Senator REED. You have got the Government one-year bond—that is the proper name by which to call it, I suppose—bearing 3 per cent interest, and it is now sold to a banking house in London, and it draws 3 per cent interest. It is simply the credit of the Government loaned to the Federal banks, extended to it.

Mr. VANDERLIP. Yes, sir; instead of a 2 per cent bond that the Government formerly was obligated to pay.

Senator REED. Yes. Now, does the Government pay that 3 per cent interest or does the bank pay it?

Mr. VANDERLIP. The Government would pay it.

Senator REED. Then the Government would have to stand the additional rate of interest under that plan. Do you think that would be just and equitable to the Government?

Mr. VANDERLIP. It does not make any difference whether the Government or the bank pays it. Let the bank pay it, if you prefer, because it comes out of the Government. I mean it only reduces the profits the bank will eventually turn in to the Government. Let the bank pay it, if you like.

Senator REED. Your plan would involve the banks taking care of the principal of that bond at its maturity and also taking care of its interest?

Mr. VANDERLIP. And the bank would be in a position to make a profit because it was able to lend the notes it had secured upon these new one-year Government notes, and receive interest on those notes. It would therefore be in a position to recoup the Government.

Senator SHAFROTH. Mr. Vanderlip, would the withdrawal or the refusal of the reserve banks to renew the 90, 60, and 30 days paper upon which they had advanced money or loans, have a tendency to control the flow of gold?

Mr. VANDERLIP. I do not think I quite comprehend your question.

Senator SHAFROTH. We will suppose there is a flow of gold to Europe, and there are notes that have been presented by the individual banks or drafts which have been discounted, and the regional banks desire to stop the flow of gold. Would there be a tendency to stop that flow by the banks saying they would not issue any more currency?

Mr. VANDERLIP. Anything that will raise the interest rate will tend to check the flow of gold.

Senator SHAFROTH. Well, will not the tendency to stop having so much circulating medium have that effect?

Mr. VANDERLIP. Any reduction of the circulating medium other than the normal redemption of bank notes would raise the rate of interest and would tend to check the flow of gold.

Senator SHAFROTH. Could it become effective, do you think, by the exercise of that power alone, on the part of the reserve banks?

Mr. VANDERLIP. No. The interest rate would have to be advanced too violently. It would have to be advanced too far, and even within any reasonable limits might not check the flow of gold. If European nations are in an exchange position to demand gold, even though the rate were very high here, they might still demand it, and the ability of the bank here to sell something abroad and produce a credit to meet exchange demands which the European nations hold against us



is the effective way to stop the flow of gold. You can not stop a flow of gold permanently. If we buy more than we sell we have to pay for it some time. For a season, for a brief time, we can prevent that flow of gold. Or at a time when a depletion of our reserves is going to come with great severity upon us, we may be warranted in going to unusual measures to check the flow of gold at that moment. But we can not check the flow of gold for a long period if balances are against us.

Senator HITCHCOCK. Will you explain the exact method which the bankers in New York now adopt to check the flow of gold?

Mr. VANDERLIP. They have absolutely no method, Senator. We can advance the rate of interest a little, but we have no joint way of doing that. We may not legally even confer on the subject. New York City is the greatest free-gold market in the world. Anybody with credit in New York can get gold, and there is no way at all of effectively checking it.

Senator HITCHCOCK. You do adopt some methods occasionally?

Mr. VANDERLIP. No; we really adopt no method. If gold is going out and our reserves become impaired, if they fall below the legal limit, naturally, the interest rates will rise and the rise in interest rate tends to check the gold movement.

Senator HITCHCOCK. Can you explain how it tends to check the gold movement? What is the exact operation by which the movement is checked?

Mr. VANDERLIP. If funds are worth much more in New York than they are in London the banks, or the individual with funds, which they can have in either place, will choose to keep some part of their funds in the higher interest community. There would be the tendency to draw from New York, if the exchange situation warrants Europe in drawing, but to some extent this would be counteracted by the attractiveness of the rates in New York. If a bank can loan money in New York at a very high rate it will not draw it home at a low rate.

Senator NELSON. You mean a foreign bank?

Mr. VANDERLIP. A foreign bank; yes, sir. I mean if an English bank finds money at 6 per cent in New York and 3 per cent at home, and has a credit in New York, and believes the New York loan is secure, it will leave at least some portion of the money it could draw at the New York bank there in order to take advantage of that high rate.

Senator HITCHCOCK. What I want to find out is how the London bank maintains those funds in New York. Are they on deposit with the New York bank?

Mr. VANDERLIP. They are on deposit in the New York banks, and the New York banks have a fluctuating rate of interest, according to the call-loan rate. A London bank may also loan in the call-loan market in New York through its New York correspondent.

Senator HITCHCOCK. How many banks, international banks of that character, are there that use New York as a loaning market?

Mr. VANDERLIP. I am unable to say exactly, but a large number.

Senator HITCHCOCK. A large number?

Mr. VANDERLIP. Yes. Nearly every important European bank has a New York correspondent.

Senator HITCHCOCK. Is that merely for the purpose of exchange, or for the purpose of taking advantage of the high rate in the New York market?

Mr. VANDERLIP. It is more for the purpose of exchange. They do, however, permit exchange to accumulate during a period of high-interest rates.

Senator SHAFROTH. You say that this is a fluctuating rate. Is your payment of interest to outside parties a fluctuating rate?

Mr. VANDERLIP. Not to domestic banks; it is to European banks.

Senator SHAFROTH. So that your rates may be 2, 2½, or 1 per cent. varying each day?

Mr. VANDERLIP. Hardly each day. We would vary it, perhaps, fortnightly.

Senator HITCHCOCK. Can you give us any idea of the amount of European capital that is in use at any one time in that way?

Mr. VANDERLIP. I could not say exactly the amount.

Senator HITCHCOCK. Does it vary?

Mr. VANDERLIP. Undoubtedly.

Senator HITCHCOCK. It is varying with the exigencies of trade?

Mr. VANDERLIP. It varies with the exigencies of trade and the demands for money. If there is not a keen demand for money abroad, and if there is a keen demand for money in New York, a portion of the funds will stay in New York and be loaned there, and vice versa. We have in New York frequently loaned very large amounts to Germany in the last two or three years. Germany has paid 7 or 8 per cent—that is, the first-class banks there—and we have permitted funds to accumulate there and made loans because we could get a higher rate of interest there.

Senator HITCHCOCK. Are those funds in the shape of deposits?

Mr. VANDERLIP. Sometimes, and sometimes in actual collateral loans.

Senator HITCHCOCK. Do you think a regional bank located in New York would have a better opportunity to control that international situation than the New York banks now have?

Mr. VANDERLIP. Undoubtedly.

Senator HITCHCOCK. It would unify them?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Why are they not united now in that matter?

Mr. VANDERLIP. The Sherman antitrust law may be one reason. I know of no business whatever where the competition is keener or more complete than it is in the banking business to-day. We are as keen to compete in order to get the other man's customer and secure the deposits as you will find in any business whatever.

Senator HITCHCOCK. There has been some testimony here and before other committees in Washington to the effect that there really was no competition on a large transaction in New York; that there was a combination among the great New York houses, by which if one named a rate or terms the others abided by it, and the man or a concern was unable to get credit elsewhere.

Mr. VANDERLIP. I think that is wholly without foundation. It is true that a banking house which has been doing the financing for a corporation, and has carried that corporation along through bad years and good years, furnished them money when they could not sell

bonds, and generally fathered them in a financial way—such a banking house feels that the financing of that corporation is its business and that other banking houses or banks ought not to interfere with it. To an extent that is respected. Your statement in regard to credits, however, I do not think holds good at all, because there is the keenest sort of competition, perfectly open competition, among the banks to gain deposits and credit.

Senator HITCHCOCK. There is a system of interlocking directors to some extent?

Mr. VANDERLIP. To some extent.

Senator HITCHCOCK. And a joint ownership in some other cases?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Now, surely that would result in rather a community of interest among those banks.

Mr. VANDERLIP. Even in those cases the keenness of the competition is surprising, as I have pretty good personal knowledge. I am on the boards of some other banks, but I know that the National City Bank will go after the business, and the other banks will go after the same business. Competition is very keen, and while there may be some community of ownership and some interchange of directors, it does not extend to the officials of the banks. They are working for the banks by which they are employed, and working very hard and very keenly.

Senator HITCHCOCK. Is there a standard rate of interest in New York as there is in London, fluctuating from time to time?

Mr. VANDERLIP. No, sir. There is a standard rate of interest that is paid by banks on the balances of other banks—the reserve deposits of other banks. That is 2 per cent. There is another rate of interest; that is the call-loan rate. That is the rate that money is loaned at on the stock exchange to the members of the stock exchange on stock-exchange collateral.

Senator HITCHCOCK. How is that rate fixed?

Mr. VANDERLIP. By competition, just as the price of stock is fixed. Brokers go in there and offer money to brokers who want to borrow it, and they compete for it.

Senator HITCHCOCK. Then, there are other rates besides that?

Mr. VANDERLIP. That rate fluctuates daily. Then there is the time rate on stock-exchange collateral, and the commercial-paper rate, the rate to commercial borrowers. Of course one of the great things for legislation to accomplish is to make it unnecessary for us to have to go into the call-loan market.

At the present time the one place that we have in this country to loan money to-day and get it back to-morrow, if you want it, is in the New York call-loan market. Call loan means a call loan in New York. Practically it does not mean a call loan anywhere else. In New York it means a call loan repayable at the option of the lender. If you make a call loan in New York to-day, you can call it to-morrow without any compunction.

Senator WEEKS. It is equally true that it is payable at the option of the borrower if he sees fit?

Mr. VANDERLIP. I mean that in New York a loan is payable at the option of the lender; elsewhere payment is theoretically at the option of the lender, but practically at the option of the borrower. It is the

one place you can lend money and be certain you will get it back, and you can not always be absolutely sure then, because there are certain times when you can only get it back where the loan is shifted, and the loan can not be shifted.

Senator REED. Why is that system in existence in New York and not elsewhere?

Mr. VANDERLIP. Because the New York Stock Exchange offers the one great market for collateral security. If we loan on a stock actively traded in on the New York Stock Exchange, we know that the borrower can be forced to pay the money, because he can sell. We demand a margin of 20 per cent between the market price and what we loan, and under almost any conceivable conditions there will not be a drop of 20 per cent before you could compel the borrower to sell the collateral.

Senator REED. Do you regard that system of loaning large sums of money upon that class of security as an element of safety or of danger in the banking system?

Mr. VANDERLIP. An element of danger and unsound banking, but the soundest banking we can do under our present system.

Senator REED. If it is unsound, it ought to be stopped?

Mr. VANDERLIP. It ought to be, and no one is more anxious than the great banks of New York to aid in that situation.

Senator REED. Why do they not voluntarily stop it?

Mr. VANDERLIP. Because they have nothing to take its place. We have got to have a large amount of loans that we can certainly get when we want the money.

Senator REED. In other words, you feel that in order to make money that you must keep your capital employed up to a certain limit, and here is a place where you can employ more of it because you can demand it back quickly; is that the thought?

Mr. VANDERLIP. The bank of which I am president has \$200,000,000 of net deposits; it must keep 25 per cent of that in cash. It pays interest on a large amount of deposits and upon all deposits obtained from other banks. It must therefore employ those funds in order to get an interest return. It keeps 25 per cent in cash, and it keeps a secondary line of reserve, amounting to 60 or 70 or 75 millions of dollars in demand loans, in loans that we can get back, unless the whole machinery of doing business on the stock exchange is clogged.

Senator REED. Now, Mr. Vanderlip, you say this is bad banking, but that it is necessary, however, under our present system, but that it ought to be done away with, and that implies, of course, something substituted in lieu of it. What is the system that could be substituted in lieu of it?

Mr. VANDERLIP. It implies a bank of rediscount, where banks can be certain that under any conditions they can rediscount their paper. That converts commercial paper into a quick asset, and permits it to take the place of call loans. If such a bank can be had, it will turn several hundred millions of dollars that are now employed in call loans and other stock exchange loans, into commercial channels. It will be of vast benefit to the commerce of the country.

Senator REED. Then, if I am not interrupting you?

Mr. VANDERLIP. Not at all.

Senator REED. I thought you had completed your answer.

Mr. VANDERLIP. Yes; I had.

Senator REED. Then, if you had a place where you could take paper and get money on demand, you would loan your money out on 30, 60, and 90 days, and in that way use that part of your funds which you now loan on call loans?

Mr. VANDERLIP. Exactly.

Senator REED. And the thing that is necessary is some machinery whereby you can certainly turn a 30, 60, or 90 day piece of paper into cash at once?

Mr. VANDERLIP. That is the thing that is necessary.

Senator REED. Before I ask you as to the method, I want to have you tell us just what element of danger there is in the banking system, in your judgment, arising out of the present method of loaning money on call, and having it used on the exchange?

Mr. VANDERLIP. There is a disadvantage in that a very great sum of money, several hundred million dollars that ought to be devoted to the commerce of the country, is employed in carrying securities. That is a disadvantage and not a danger. The danger is that we are depending solely upon these call loans as our secondary line of reserve. Everything works all right so long as those loans can be liquidated, and they can be liquidated as long as they can be shifted from one bank to another, but there is nothing of a liquidating character about a loan on stock exchange collateral.

The ideal security for a bank is a self-liquidating loan. A loan to a merchant for goods that can be sold is a self-liquidating loan. Making self-liquidating loans is the business a bank ought to do. It ought not to loan on real estate, and it ought not to loan an undue amount of its funds on the securities of corporations, for they will not liquidate themselves; the only way the bank can get the money is to shift that loan to some other bank or have the owner of the security sell that security to somebody else.

Senator REED. Then, when trouble comes what happens to the bank which has a large amount of money loaned upon these call loans, the proceeds of which have been utilized upon the exchange?

Mr. VANDERLIP. When trouble comes the bank forces the borrower to sell. He must sell, perhaps at considerable sacrifice. All investors are disconcerted by this fall of borrowing needs; all investors are upset because the price of the securities has declined, and there is a general demoralization of the security market, which involves many people who have had nothing at all to do with the original loan.

Senator REED. It becomes a center of disturbance which may develop into a financial cyclone?

Mr. VANDERLIP. Yes, sir; and it is certain to extend to the commercial borrower.

Senator REED. And to what extent do you think that factor contributed to the trouble of 1907?

Mr. VANDERLIP. It was undoubtedly a considerable factor. Of course, the trouble in 1907 was occasioned by the banks, but really caused by our system of disconnected reserves which forced the banks to seek, properly enough, to protect themselves—for no one else was going to protect them—and they drew to themselves undue reserves. I am speaking of the country banks. They drew to themselves more reserves than were necessary, because they became alarmed. They

put an impossible burden on the central reserve city banks, a burden that could not be borne under our system. The central reserve city banks did deplete their reserves; they did everything that was humanely possible under the system, but the system broke down and there was general suspension.

Senator REED. Then, of course, if there had not been this deposit by one bank with another, a large part of it finally terminating in New York City; if the money had not been there to have gone down, of course you would not have had that money to loan, you would not have had it out on call, and therefore, if the reserves had not been there in the first place—

Mr. VANDERLIP (interposing). You think the trouble would have been avoided? No, sir; it would not have been avoided unless you had had a central reserve reservoir; if you had had a law—

Senator REED (interposing). Would you not have avoided at least a part of it? Would it not have been minimized?

Mr. VANDERLIP. It would have been minimized. But if you had had a law requiring every bank to keep all its reserve in its own vault, the same sort of trouble might have occurred. That is, every bank would still have drawn to itself an undue amount of reserves at the expense of its neighbors, and would still have created—might largely have created—just the same situation.

Senator REED. You said "reserves." You mean it might have drawn to itself an undue amount of money?

Mr. VANDERLIP. Yes, sir.

Senator REED. Over and above the reserve?

Mr. VANDERLIP. Over and above the legal reserve; yes, sir.

Senator REED. But to the extent that the banks had their reserves in New York, to that extent this trouble was increased, because they had that much more money there to pull away from you at the very hour when you needed it? That is correct, is it?

Mr. VANDERLIP. That is correct. And I will say that I believe the reserve system provided for in this measure is superior to the existing system.

Senator NELSON. I am glad to hear you say so; that is my view.

Mr. VANDERLIP. I will say that although it means the loss of \$50,000,000 deposits to the bank I represent, I believe it is sounder economically than the existing system, and I would be glad to see it in force.

The reduction of reserve which is provided, from 25 to 18 per cent. is essential and is not too much.

Senator REED. Why is that essential?

Mr. VANDERLIP. The reserve of 25 per cent has been carried because we carried the reserves of larger banks. If we are no longer to carry the reserves of larger banks, there is no longer the necessity for us to carry that excess reserve. As a matter of fact, if we no longer carry the reserves of larger banks I can see no reason why a city bank should carry more reserve than a country bank.

Senator BRISTOW. That is what was in my mind.

Mr. VANDERLIP. A city bank has more liquid assets than a country bank. It is in a position to recoup itself for any loss of cash more quickly. It has far more facilities, and why there should be any classification into country banks and central reserve city banks if

the central reserve city bank is to carry no country bank reserves, I am unable to see.

Senator HITCHCOCK. While you may not have the reserves of these banks under the new system, you still have large country balances subject to withdrawal.

Mr. VANDERLIP. I doubt it, sir. I can see no reason, if the national clearing-house feature works, why one bank need keep a balance with another bank.

Senator HITCHCOCK. You still continue to pay the 2 per cent interest on balances?

Mr. VANDERLIP. Yes; but they will not keep it for that alone.

Senator HITCHCOCK. Is it not a fact that they have in New York all the time a much larger amount of money than in country banks and larger than the law calls for?

Mr. VANDERLIP. Yes, sir; because of the collection system. If you have a national collection system, a national clearing house, there will be very little, if any, need for one bank to keep a deposit with another. I believe that for a good while the small borrowing banks will prefer to do business with their old friends, and banking relations rather than go to the new reserve bank to rediscount, and there will be a tendency to continue the old relationship. And there may be, therefore, some considerable balances, but I look for the almost complete elimination of national bank balances with other banks.

Senator HITCHCOCK. Now, Mr. Vanderlip, is it not a fact that you pay 2 per cent on country balances?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. If the law prohibited you from paying 2 per cent on country balances, would there not be a very material reduction in the amount of balances that the country banks would keep in New York?

Mr. VANDERLIP. With the existing reserve provision?

Senator HITCHCOCK. Under the existing law; yes, sir.

Mr. VANDERLIP. There would be a considerable reduction.

Senator HITCHCOCK. Can you estimate how much that would be? What per cent it would be?

Mr. VANDERLIP. I would hardly want to venture a guess without giving it more consideration.

Senator HITCHCOCK. Does not that fact prove it is to secure the 2 per cent interest that the large balances are kept and that the New York banks give the 2 per cent in order to get the balances to use in New York?

Mr. VANDERLIP. No; it does not prove that, I think. It proves that the country bank is doing with its balance just what we are doing in the call market; it is providing a secondary reserve upon which it gets a low rate of interest, but which it can call and turn into money at any time it wants to. That is what we do with call loans; we sacrifice the interest rate to immediate availability, and the country bank keeps a balance at a lower rate than it could get otherwise, and even a higher balance than is made necessary by the legal requirements in order that it may get it quickly if it should want it.

Senator REED. Mr. Vanderlip, this bill provides for these reserve banks. It is safe to assume that one of them would be located in New York.

**Mr. VANDERLIP.** I have not known whether it was safe to assume that or not. I am glad to hear it.

**Senator REED.** I think it is a reasonably safe assumption. Now, if that were done and this bill were enacted into law and that bank established, do you think, after a study of the bill, that that would provide a safe means, practical working means by which the bank of New York and that region could obtain money in time of necessity, so that it would take the place of your call loans and the system which is now in vogue? Would a bank have enough money? Would it have enough facilities?

**Mr. VANDERLIP.** There are two fundamental shortcomings in the bill that will prevent it working successfully to accomplish what you outline. The one is—a subject I have referred to—the fact that you have not got a central reservoir; you have 12 reservoirs. I believe that will work very much against its successful operation. The other is that you have not provided an elastic note issue. That is just a question of mathematics. Not to go into the subject of whether the Government or the bank should issue the note, I will say parenthetically I am perfectly clear in my mind that the bank and not the Government should issue the note. But passing that, you have provided that the 2 per cent bonds now in circulation can be redeemed, 5 per cent a year, into threes, and there has been a presumption that the bonds would be so redeemed and the \$741,000,000 of national-bank notes would be retired.

I challenge that assumption. The 2 per cent bonds with the circulation privilege will be worth more than the 3 per cent bonds without the circulation privilege. A bank buying 2 per cent bonds at par, taking out circulation and losing from its reserve the 5 per cent redemption fund as the bill provides, will still make a profit of 1.18 per cent if it can keep the circulating notes out. That, with the 2 per cent the bank gets as interest on the bond, makes a return of 3.18 from the 2 per cent bonds, whereas the return from the 3 per cent bond is only 3 per cent. It is just a question of mathematics. The twos will sell higher than the threes. If the twos will sell higher than the threes they will not be exchanged; they will continue as a basis for the existing national-bank-note circulation. That existing circulation of nearly \$750,000,000 is irreducible, and you will have no room for an elastic note issue. You will have to reduce the present national-bank notes in order to make room for elasticity. We have circulation enough now for any ordinary conditions. It is only under extraordinary conditions, or at least under the conditions of special claims of crop-moving periods, that we need any more than we have now. We probably have really a redundancy, and there will be no room for expanding and contracting currency until we retire some of the present national-bank notes and replace them with the note issue that will respond to the demands of commerce. Therefore, I say you have not provided an elastic currency, which is one of the essentials of a good measure.

**Senator REED.** I am not sure that I followed your mathematics on the 2 per cent and 3 per cent bond question. The present 2 per cent bond, of course, pays its 2 per cent, and then currency is issued upon it. Then the currency can be loaned out—

**Mr. VANDERLIP (interposing).** And we pay a tax on the currency of half of 1 per cent and we pay certain expenses of the comp-



troller's office, and we have to put up, under this law, a 5 per cent redemption fund, which will not count as reserve. Therefore, on \$100,000 of twos we would get \$95,000 of loanable currency. The result of taking out the currency and loaning it in that way is a profit of 1.18. A bank buying twos at par, taking out circulation, depositing a 5 per cent redemption fund with the Treasury and not counting that in its reserves will make a total equivalent of 3.18 per cent on the bond.

Senator SHAFROTH. You deduct also the one-half per cent tax?

Mr. VANDERLIP. I am deducting also the one-half per cent tax.

Senator HOLLIS. What rate do you assume you will loan at?

Mr. VANDERLIP. Five per cent.

Senator REED. Following that suggestion of Senator Shafroth's, the interest rate, of course, varies?

Mr. VANDERLIP. I am assuming a 5 per cent interest rate.

Senator REED. If you take the 3 per cent bond, of course, you do not get any currency upon it?

Mr. VANDERLIP. You just get your straight 3 per cent.

Senator REED. So, you say, the present 2 per cent bond, with the circulation privilege, is a more valuable investment than the 3 per cent bond without it?

Mr. VANDERLIP. Yes, sir.

Senator REED. By 0.18 of 1 per cent?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. That is, to the bank?

Mr. VANDERLIP. To a bank; yes, sir.

Senator REED. Of course, that would indicate then—your objection is that this plan retires the national-bank note?

Senator NELSON. No; that it does not.

Mr. VANDERLIP. My objection is that it does not retire the national-bank note, which should be retired.

Senator REED. In other words, you mean the national-bank note should be issued upon the 3 per cent bonds?

Mr. VANDERLIP. No, sir.

Senator REED. Issued upon what?

Mr. VANDERLIP. I mean that at least some portion of the present mass of national-bank circulation should be retired. To do that you must refund or buy some portion of the 2 per cent bonds that are now under the national-bank note circulation.

Senator REED. This bill provides for the retirement of those bonds—

Mr. VANDERLIP (interposing). In 20 years. That is not soon enough.

Senator REED. Five per cent a year.

Mr. VANDERLIP. But the banks will not retire 5 per cent a year. If the bank finds the 2 per cent bond more valuable, it will not voluntarily give up the 2 per cent bond for the 3 per cent bond, and therefore I say that during the 20 years you will not get the retirement.

Senator REED. So this claim that these 2 per cent bonds are not worth their face would not seem to be very well taken, would it?

Mr. VANDERLIP. The bonds are worth their face to any bank that will hold them to maturity and that is certain to be able to keep out the circulation.

Senator REED. Suppose that we keep out this \$750,000,000 of bank circulation and that there is no change in the amount which we now have. Still is there not an element of elasticity provided in this bill when it is stipulated that promissory notes indorsed by regional banks can be turned into money? Is not that an element of elasticity?

Mr. VANDERLIP. It is an element of elasticity if people want more currency. There is no thing that the law has less to do with than the amount of money you carry in your pocket, and the amount of money that the people of this country carry in their pockets will not be influenced by your legislation. They will determine that, and the surplus they will redeposit in banks. If they want an increasing amount of currency they will get it. If they do not get it in the form of a bank note—which is the form in which they ought scientifically to have it—they will have it in gold. They will carry in their pockets what they need. They are the ones to determine the volume of currency circulation. They alone will determine it; the regional banks will not determine it nor will any Federal board. It will be the people themselves. And any surplus will always be deposited in the banks and any demand for more will come out of the banks' reserves. You can not help that; you have got to start with that as something that is fixed outside of your deliberations.

Senator REED. I understand, of course, that the people are always going to carry around some money. They always have. But the question I am asking—and I am not sure I made myself plain; perhaps I did not grasp your answer—is this: If it is provided that any national bank or any member—I will use that term—desires money it can bring up its securities and turn them into money, and that would provide a means when that bank needed money for it to get it, would it not?

Mr. VANDERLIP. Let me ask you, what does a bank need with money? It has two needs: One is for reserve money and one is for money to pay out. The people will determine whether the bank is paying out money or receiving money. The bank will not determine that. For reserves under this bill it does not need all money; it only needs part money and part balances with a Federal reserve bank.

These notes, of course, would not count as reserve in any event, so the bank will only need notes if the people need more of them. If the people do not need more notes the bank can not make any use of them. It can not go and get these notes and put them in its reserve. They will not count there. The bank can only get rid of them if people want more money in their pockets.

Senator REED. That is the one time it needs them.

Mr. VANDERLIP. They have money enough in their pockets now, so it is only in the exceptional case that we will be using these new notes unless we retire some of the present notes.

Senator REED. Yes; but, of course, if we cut down our currency that is now out one-half it would follow that immediately they would begin using a large amount of this new money.

Mr. VANDERLIP. Yes.

Senator REED. I grant you that. But suppose we do not cut it down, still if we had a plan by which in the event of a demand for money that demand could be satisfied this bill would be elastic, or would provide an elastic system to that extent?

Mr. VANDERLIP. For the peak of the load; yes.

Senator REED. It would not be elastic for all times, but for all abnormal times—

Mr. VANDERLIP (interposing). It performs about the same thing that the Aldrich-Vreeland bill would perform were the taxes there imposed not so heavy.

Senator REED. What you would prefer would be to retire a part of our present circulating medium, and, having cut it down, to at once create a necessity for some of this other money, and then that banks should issue—your preference would be that the banks should issue that additional amount of money?

Mr. VANDERLIP. My preference would be to retire a considerable amount of the present national-bank notes, to replace them with new notes, such as provided in this bill, and replace the 2 per cent bonds that secure these present notes with one-year Treasury exchequer bills.

Senator NELSON. Three per cent?

Mr. VANDERLIP. Three per cent.

Senator REED. And I believe you mentioned about \$300,000,000?

Mr. VANDERLIP. That would be ample.

Senator HITCHCOCK. What is your ground for saying that, in your opinion, the present currency is redundant?

Mr. VANDERLIP. There is a constant redemption, of course, of the present bank notes, at certain seasons of the year. In the springtime they pile up on us in New York; they pile up everywhere. We all have too much money. The interest rate drops too low. There is not a proper redemption of them, and, if they are redeemed, they are put right out again.

Senator HITCHCOCK. Is there not a very well-known cause why those national-bank notes pile up on you in New York? Is it not because the banks of the interior are unable to use them in their reserves, and the only way they can make a proper use of them is to send them to you, where they would count as reserves? And when they reach you you can not count them as reserves and you send them to the Treasury to get something that will count as reserves?

Mr. VANDERLIP. And then the Treasury sends them out and they are at once paid out by the banks, and the circle goes on.

Senator HITCHCOCK. Yes; but it is because they do not count as reserves, and the bank is constantly striving to maintain a reserve that they send them to you?

Mr. VANDERLIP. Yes; that is an important factor in their redemption—

Senator HITCHCOCK (interposing). My point is this, that redemption does not necessarily indicate redundancy, but merely indicates a scarcity of reserve money.

Mr. VANDERLIP. That is true.

Senator HITCHCOCK. It seems to me that that does away with your statement—

Mr. VANDERLIP (interposing). I do not think it necessarily indicates a scarcity of reserve money, and it may indicate a redundancy.

Senator HITCHCOCK. Why otherwise would a bank, say, in my town, Omaha, send national-bank notes to you instead of gold certificates?

Mr. VANDERLIP. Because we will pay 2 per cent interest. The gold certificates do count as reserve.

Senator HITCHCOCK. That is the reason they keep them in Omaha?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. And, therefore, the redemption of these national-bank notes—\$300,000,000 a year, right from New York City—indicates no redundancy of currency, it seems to me, but a lack of reserve money; a struggle to get hold of reserve money. Is not that true?

Mr. VANDERLIP. It indicates a disposition to retain reserve money in their own vaults and get rid of money that will not count as reserve.

Senator HITCHCOCK. Before you proceed, do not the statements of all the national banks combined show that the actual amount of reserve money in all those banks during the past year has been down to a minimum?

Mr. VANDERLIP. Yes; almost at the lowest in our history.

Senator HITCHCOCK. Does not that indicate a lack of money, instead of a condition of redundant currency?

Mr. VANDERLIP. It may indicate a very expanded state of loans.

Senator HITCHCOCK. Have you any other reason for saying that, in your opinion, the currency is redundant?

Mr. VANDERLIP. I do not state that the currency is redundant, except at certain seasons. As we stand now, the volume of bank notes remains about the same, in spite of these redemptions, from month to month. It is no larger in October than it is in April. The need for currency is probably \$300,000,000 less in the spring than it is in the fall, so it is either very redundant in the spring or lacking in the fall, one or the other. I presume we are about at an average balance, that we are lacking in the fall to some extent and redundant in the spring to some extent, but we have no conformity of volume to our needs.

Senator HITCHCOCK. Now, have you any estimate as to what degree of elasticity should be given to our whole volume of currency?

Mr. VANDERLIP. Why, really, it ought to be just the degree that the people want a bank note instead of a bank balance. The thing ought to be interchangeable. Anybody with a credit in a bank ought to be able to take that credit in the form of a balance on the deposit books of the bank or in the form of a circulating note. That is the ideal elasticity—the same elasticity as there is with a check. You write a check when you need it, and it is returned when you are through with it, when it is paid.

Senator HITCHCOCK. Assuming we have gold and currency combined of something like \$3,000,000,000, gold currency and silver combined of \$3,000,000,000, what per cent of that should be subject to contraction and expansion?

Mr. VANDERLIP. My estimate is—but I will say there is no way I know of making a very accurate estimate—that we need \$300,000,000 more currency in the crop-moving season than we do in the springtime.

Is that about right, Senator?

Senator WEEKS. I did not understand that.

Mr. VANDERLIP. We need \$300,000,000 more currency in the crop-moving season than we do in the springtime.

Senator WEEKS. We know about what the East, commencing with Chicago, ships South for that purpose, and I suppose \$200,000,000 to \$250,000,000. I am not quite sure.

Senator HITCHCOCK. Do you mean by that, in the season when we need the least we have an excess now of \$300,000,000?

Mr. VANDERLIP. We have an excess now of some part of \$300,000,000. In seasons when we need it most we have a deficiency of some part of \$300,000,000. I will not undertake to say just where the line is.

Senator HITCHCOCK. Let us divide it between the two and say \$150,000,00. Then, why do you favor the tearing up of the whole bank-note system as it now exists in order to secure an excess of \$150,000,000 at certain seasons of the year?

Mr. VANDERLIP. It is just as important to secure the redemption of that \$150,000,000 at the other season of the year.

Senator HITCHCOCK. Because it piles it up in New York?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Suppose the law prohibited the piling of it up in New York?

Mr. VANDERLIP. The law can not prohibit all the things it undertakes to.

Senator HITCHCOCK. The law can direct where the national banks shall keep their reserves.

Senator NELSON. Where they pile it up somewhere in the country; it does not do any harm where it accumulates in the country bank.

Mr. VANDERLIP. Would not the country banks have the same motives as the city banks if it finds it is very flush in funds? Would it not be apt to make loans it otherwise would not?

Senator HITCHCOCK. It is not the experience. The trouble always originates in New York.

Mr. VANDERLIP. The trouble rarely originates in New York, but is always exhibited there, because it come up along the line. The country bank calls on the reserve correspondent, and the reserve correspondent calls on New York. It is merely exhibited there as a culmination of the pressure.

Senator HITCHCOCK. The experience of France, even with their very expansive currency—the aggregate of the expansion and contraction, as I recall it, is something like only 8 or 10 per cent. Maybe it is only 6 or 8. The expansion occurs in January or February, and the contraction occurs in August, almost with a uniformity. The great mass of the banking currency of France remains always outside.

If the great body of our currency must be always outside, why have that part elastic? Why not allow the permanent part to remain as it is now and only provide an elastic cushion on top of it?

Mr. VANDERLIP. That is all you have done in this bill. The cushion is extremely thin—so thin it won't save you from jars.

Senator HITCHCOCK. You think it would not be taken up to any great extent?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Would not, in a short time, the growing needs of the country demand another increase of bonds, and would not increased needs of the currency arise and cause an elastic demand for this provision?

Mr. VANDERLIP. They will in time, if you want to legislate for the future instead of for the present. In this connection there is one great danger to which I want to call your attention.

Senator SHAFROTH. Just before you leave that, you indicated this currency would not be taken up. How much paper do you estimate there is now of the kind specified in this bill as being required in order to issue currency upon?

Mr. VANDERLIP. I would not undertake to estimate it in dollars. I believe the supply is ample, or at least would soon become ample as we adjust our business practices to the needs for creating this type of paper. I think the discount provisions are wise and well considered.

Senator SHAFROTH. How much call money is there used in New York City, if you can give a rough estimate of it?

Mr. VANDERLIP. I have not the figures in my mind. I have one interesting figure in that connection. At the moment there happens to be \$180,000,000 of outside bank money loaned on call in New York City, and I have known it to be as high as \$300,000,000.

Senator SHAFROTH. It varies and fluctuates?

Mr. VANDERLIP. Yes. That is outside money loaned on commercial discounts.

Senator SHAFROTH. There would be, in addition to that, some New York discounts, would there?

Mr. VANDERLIP. Many millions.

Senator SHAFROTH. Do you think it is as much as a hundred million dollars?

Mr. VANDERLIP. More than that.

The CHAIRMAN. In the hearing, on page 773, is a table of those outside loans, Senator, which were gathered together by the comptroller's office.

Senator SHAFROTH. Yes; I will be glad to look at that; but I want to ask one more question in this connection: When your banks make a call for a loan—that is, a call loan—where does the man get his money from to pay you?

Mr. VANDERLIP. From another bank.

Senator NELSON. If he can get it?

Mr. VANDERLIP. Yes; if he can get it, or by selling the security. There is no other way. There are just two ways of getting it, either by shifting the loan or selling the securities.

Senator SHAFROTH. And then he has to sell at a sacrifice when he has to sell his securities?

Mr. VANDERLIP. Yes.

Senator WEEKS. Mr. Vanderlip, I would like to clear up something you have just stated. You say at present there are \$180,000,000 of money loaned by New York for country banks on call loans. Does that include loans made for foreign banks as well?

Mr. VANDERLIP. I presume it does. That amount would not be an important part of it, however.

Senator WEEKS. You have stated that at times there is a considerable amount of money loaned for foreign banks, varying, of course, with rates.

Mr. VANDERLIP. Yes.

Senator WEEKS. Three or four years ago I was on a committee to look into the Canadian system, and the Canadian banks were very free to tell us how their loans were made and where they were made, and I was amazed at the amount of money they loaned to New York, or were loaning at that time. I do not remember the definite figures.

but it would be a very large per cent of \$180,000,000, loaned by banks of New York on stock-exchange collateral. I know it impressed me with the idea if the Canadian banks on some one day called all of their loans it would create a very serious condition in the New York market.

Mr. VANDERLIP. That condition is very serious. There is no reserve held against the possibility of those demands from the outside. If a New York bank loans on call, it loans a deposit and it keeps a reserve against that deposit, so that it has something there against that liability. But the outside banker loaning it can demand the whole of the loan and take it right out of New York, and it is a factor of very great danger and one that in time of trouble has several times been shown to be of great danger.

Senator BRISTOW. Mr. Vanderlip, I was interested in your statement to Senator Reed, that the 2 per cent bonds were worth par for circulation purposes. Why are they now selling below par?

Mr. VANDERLIP. Because the bankers, I suppose, do not know just what legislation we are going to have. They have seen a bill started without a provision for these bonds. This bill may now pass without any provision for the bonds. I, as one banker, do not want to accumulate bonds until I know something about the future legislation that will protect their value. I said, too, that they would be worth par for that purpose. They are worth par if a Government obligation paying 3.18 is worth par. If a Government obligation paying that was not worth par, these bonds would not be. They are worth more than par if a 3 per cent bond is worth par. Of course when a 3 per cent bond is not worth par, this new issue of bonds would not sell at par. The present 3 per cent bonds, without the circulation privilege, are quoted just under par now, and with any large addition to the volume of such bonds, I am certain they would go further below par. No foreign Government ever floats a bond at anything like that basis.

Senator BRISTOW. New York is the market place for these bonds, is it not?

Mr. VANDERLIP. Yes.

Senator BRISTOW. Are many of them being put on the market there now?

Mr. VANDERLIP. Not very many, because there is no one who is willing to buy them and there is no increase in circulation. The tendency now is to decrease circulation. The thing that always held up the bonds has been a constant demand for increase in circulation. Now that demand has ceased, and certainly no one wants to buy them for investment. The only market for the 2 per cent bond is made by the banks, and the banks not being clear as to the future are not disposed to buy. On the other hand, there is not a large disposition to sell at a sacrifice. The tendency is to hedge, and there is very little doing.

Senator HITCHCOCK. Suppose the bill provided that all of the national banks having circulation should continue to have circulation on a bond-secured basis, would there be a market?

Mr. VANDERLIP. The bill does provide for that.

Senator HITCHCOCK. There is no provision for retirement?

Mr. VANDERLIP. No forced retirement; only voluntary.

Senator HITCHCOCK. At the end of 20 years it is forced?

Mr. VANDERLIP. Yes.

Senator BRISTOW. I can hardly understand your statement, then, that these bonds are profitable to the bankers if they retain the circulation privilege.

Mr. VANDERLIP. That is, you do not see, then, why the banks do not buy them?

Senator BRISTOW. I do not see why they want to sell them if they are profitable—more profitable than any other Government bonds will be.

Mr. VANDERLIP. Because they are not sure what this legislation is going to do.

Senator BRISTOW. Suppose the circulation privilege is going to continue for all these bonds?

Mr. VANDERLIP. They may, then, have in mind to retire from the national-bank system, and these bonds in the hands of any other holder than a national bank would not be worth par; they would be worth less than par.

Senator BRISTOW. Do you think the indication, then, is that the national banks expect to leave the system or fear others will?

Mr. VANDERLIP. Undoubtedly.

Senator BRISTOW. It is an indication of the unpopularity of the bill?

Mr. VANDERLIP. There are many indications of that.

Senator WEEKS. Would not you say "uncertainty relating to the bill" rather than "unpopularity"?

Mr. VANDERLIP. I think there is both among bankers.

Senator BRISTOW. Do I understand you then, Mr. Vanderlip, that, in your opinion, the reason the 2 per cent bonds are now sold for 95 is that country banks or national banks are contemplating the sale of these bonds and offering them for sale with a view of getting out of the national banking system?

Mr. VANDERLIP. Or fear other banks may go out of the national system and there will be more of these bonds for sale than the banks can absorb, and in the hands of holders other than banks they are worth very much less than the present price.

Senator BRISTOW. Of course, I suppose you will come to that, but I would like to follow that up now or at some other time, as to why these banks expect to go out of the national-banking system.

Mr. VANDERLIP. They object to forced subscription of capital; they object to the risk that that capital will perhaps not earn 5 per cent, or if it earns 5 per cent it will pay less than their other investments. They object to joining a bank if it may be forced against its will to loan to another bank. The country bank objects to the national clearing-house measure, which I believe will be of great economic advantage to the country, but which I recognize will cost the country bank some profits in its collection business, just as I believe that the new reserve requirements are superior to the present reserve requirements, although the change will cost my bank \$50,000,000 of deposits.

Senator NELSON. Do you mean \$50,000,000 of deposits or \$50,000,000 of profits?

Mr. VANDERLIP. Oh, deposits. It takes us a long time to make \$50,000,000 of profits. [Laughter.]

The CHAIRMAN. You recognize the difference?



Mr. VANDERLIP. It is a class of deposits, too, Senator, that is the least profitable of any we have. I believe we will make up for those in various ways, some ways, perhaps, that will not be altogether to the satisfaction of those who want to see the importance of New York reduced as a financial center. I do not believe this measure will so reduce New York.

Senator REED. What are those ways? I am interested right now. [Laughter.]

Senator NELSON. He wants it out at Kansas City.

Senator REED. No; I want to be frank, because when a man jests here, he is liable to be misunderstood. I would not make war on New York. I would like to know what might happen under this bill, and, incidentally, if I could move it to Kansas City, I would, if Senator Nelson did not keep it from us and take it up to St. Paul.

Mr. VANDERLIP. To-day the National City Bank keeps \$70,000,000 of demand loans. Under this new requirement I do not see that it would have to keep any, or at least a very much smaller amount. That will release, then, some considerable portion of that \$70,000,000, which we can devote to other purposes. We can use it for commercial loans, and that will be one field where the city banks will become more active. I believe we will go out in the country for commercial business.

The CHAIRMAN. And it is a much more profitable business, is it not?

Mr. VANDERLIP. It is a very much more profitable business. And I think, too, that the city banks would come in competition with the country banks for this commercial business. We are restrained from coming in competition with the country banks now, for two reasons: We do not want to interfere with our correspondent, our client who keeps his money with us, and we do not want to go into his field and take business away from him. Furthermore, we can not offer quite equal terms to the borrower, because we have to charge for the collection of all of his checks. Under the new arrangement, having no relations with our correspondent bank, his deposit having been withdrawn and placed in his own vault or the Federal reserve bank, we would have no compunctions, certainly, against invading his field and going after commercial business. Further than that, we can offer to the country commercial borrower the same terms for collecting his checks as his local bank could offer. So I think we will become competitors for business in a much wider circle.

Then, this will release some part of this \$70,000,000, which we can use for financial operations. I do not look upon this measure as a blow at the size and the future of New York banks, providing you will fix up some of these things which, as I am trying to indicate, will, I believe, keep it from working and fulfilling the mission you want it to fulfill.

Senator REED. If your bank to-day wanted to buy paper in the country, there are plenty of places it could go to buy paper that you need not conflict with any of his customers, are there not?

Mr. VANDERLIP. Buying paper is one thing and having deposit relations with the borrower is another. Of course we buy paper by the millions, right along. We buy that from the commercial-paper brokers and have no relations with the maker of the paper. With our customer, we loan in return for his keeping a balance.

Senator REED. You mean, then, that the result of the bill may be you will have more money to loan on commercial paper?

Mr. VANDERLIP. Yes.

Senator REED. That, after having known a merchant, we will say, in Pittsburgh, who desires, at times, large accommodations, he would deposit perhaps in your bank a portion of your own funds. Instead of putting them in his bank and having his bank carry them over there, he would carry them there himself?

Mr. VANDERLIP. Yes.

Senator REED. And thereby would establish banking relations with you, and when he needed an accommodation he would come to you for it?

Mr. VANDERLIP. That is exactly what will happen, I believe. And it will be an advantage to the merchant. One of the aims of this bill, as I understand it, is an equalizing of the interest rates. It will raise the rates in the cities and lower them in the country, and we will get a higher average interest rate than we do now. We have had to take a low interest rate on the great mass of call loans. We will be able to devote that to commercial purposes and get a higher average rate than we do now, and I welcome the change.

Senator REED. Just in proportion as your bank will do business with individuals through the country, and comes thereby in competition with the local bank, the borrower will get a benefit in that competition?

Mr. VANDERLIP. Yes.

Senator REED. And he is the most numerous class.

Senator WEEKS. Do you know what the average interest you get on stock-exchange loans is, and what would be the average you got on commercial loans for the past year, or a period of years?

Mr. VANDERLIP. I do not believe I could give you the commercial loans.

The CHAIRMAN. I put a table of those interest charges in the record, running through from 1906 to date.

Senator WEEKS. You mean on different classes of loans?

The CHAIRMAN. Yes.

Senator WEEKS. I would like to have Mr. Vanderlip give it to us.

Mr. VANDERLIP. In 1909 the average was 2.74; 1910 the average was 2.95.

Senator REED. What is that on?

Mr. VANDERLIP. Call loans.

Senator NELSON. Par money?

Mr. VANDERLIP. Par money. In 1911 the average rate was 2.60, and in 1912 the average rate was 3.70, and for 9 months of this year the average was 2.92. The average for the 4 years and 9 months has been 2.98.

Senator WEEKS. Without figuring the cost of doing business, just what do you have to get to break even?

Mr. VANDERLIP. 2.66. You are speaking of bank deposits?

Senator WEEKS. Yes.

Mr. VANDERLIP. We pay 2 per cent on bank deposits. We can only loan 75 per cent of these deposits. We must loan at 2.66 in order just to break even, to say nothing whatever of expenses.

Senator WEEKS. Then, eliminating the cost of doing business, you have made a profit during the years which figures in that of 0.32 of 1 per cent?

Mr. VANDERLIP. That would be so if we had loaned all of our bank balances on call. We loaned a large part of them on call, but not all, and the average rate would be higher.

Senator REED. How is the ordinary commercial rate in New York City? What does it run?

Mr. VANDERLIP. Four to five and one-half per cent, I would call an ordinary rate. When it reaches 6 it is considered very high. When it reaches 4 it is pretty low. That is about the range for the commercial borrower.

Senator NELSON. That is the time borrower?

Mr. VANDERLIP. Yes.

Senator BRISTOW. Do you now handle a great deal of commercial paper from the country?

Mr. VANDERLIP. Yes.

Senator BRISTOW. A gentleman in my town complained to me, referring to a personal incident for illustration, that last fall, while he had been getting money in New York (he was a wholesale merchant) at certain seasons of the year at from  $3\frac{1}{2}$  to  $4\frac{1}{2}$  per cent, they were now charging him 6. Do I understand you to mean that if you did not have these reserve deposits and were not loaning on time loans you would handle more of that kind of business?

Mr. VANDERLIP. You understand me to say that if we have a central bank, at which we can rediscount commercial paper, making commercial paper a liquid asset, we will then have no necessity for devoting a large amount of our funds to call loans on stock exchange collateral, and can divert the funds now used for that purpose to commercial loans.

Senator BRISTOW. Yes; I understand now, I think. That is, this commercial paper you can turn into cash at any time?

Mr. VANDERLIP. Yes; under the proposed plan, if it works.

Senator BRISTOW. By going to the Federal bank?

Mr. VANDERLIP. Yes.

Senator BRISTOW. And that makes that valuable because it will carry a higher rate of interest than you have been getting on stock-exchange loans?

Mr. VANDERLIP. Exactly.

Senator BRISTOW. Suppose the farm mortgage could be cashed in at those Federal reserve banks just the same at any time you wanted to. Would that be desirable?

Mr. VANDERLIP. It would be most undesirable, just as it is most undesirable to permit those banks to rediscount loans made on stock-exchange collateral. The liquidating character is different. There is nothing liquidating about a farm loan.

Senator BRISTOW. But if the Federal bank will discount the farm mortgage for you, just as it rediscounts a piece of paper, it would not make any difference to you?

Mr. VANDERLIP. Not until the bank got involved. It might then.

Senator BRISTOW. You think the Federal bank might get involved?

Mr. VANDERLIP. I know it would.

Senator NELSON. There is this difference, Senator, that I want to call to your attention, although I am in favor of farm loans. They have in New York a market for stocks and bonds, and I know of no market equivalent to that for farm mortgages.

Mr. VANDERLIP. That is exactly the difference.

Senator NELSON. If you had that same market for farm mortgages as you have for stocks and bonds on the New York Stock Exchange, then I should regard farm mortgages as liquid as those others.

Mr. VANDERLIP. Neither should be acceptable for rediscount.

Senator NELSON. In times of stringency, the only liquid loans are bills drawn upon products—bills of lading drawn upon products that are salable.

Mr. VANDERLIP. Yes; that is substantially so.

Senator NELSON. The product pays your bill.

Senator BRISTOW. The commercial paper, however, is not exactly that kind of security.

Mr. VANDERLIP. It should be a self-liquidating loan that is made to a person who will receive the money to pay it off as a result of the completion of the cycle of the trade he is engaged in.

Senator BRISTOW. That takes in a very small part of our business. Does it not, as a country?

Mr. VANDERLIP. No; I think it takes in a very large part. It is true the borrowings of the manufacturer for an extension of his plant would not come within that definition. If he borrows to build a new building, you might just as well loan a farmer on his real estate mortgage. That is capital invested. If he borrows to buy raw material, if he borrows to pay labor, all of which is going to work out in the manufacturing product, so that when that product is sold he can repay his loan, that is the proper type of security to put in the rediscounts of the reserve bank.

Senator BRISTOW. Suppose he borrows to buy a herd of cattle, which he expects to feed and turn off.

Mr. VANDERLIP. An ideal loan.

Senator BRISTOW. But under this bill, under the 90-day provision, it is not available, because you can not make 90-day notes for that purpose.

Senator SHAFROTH. Oh, yes you can. That is perfectly available.

Senator BRISTOW. No. They make their notes for six to nine months, as a rule.

Senator SHAFROTH. Oh, well, they can cash them after the expiration of three months.

Senator BRISTOW. Oh, yes; but it is not available at the time it is made.

Senator NELSON. The same rule, Mr. Vanderlip, would apply to a merchant in the interior who buys a big bill of goods in New York from the wholesaler, and he expects to retail those goods, and he expects to pay for the goods out of the proceeds of his retail sales. Would it not?

Mr. VANDERLIP. That is a typical example of a bank loan.

Senator NELSON. That would be like the other case you put, of the manufacturer?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. Mr. Chairman, I suggest the hour of 1 o'clock has arrived when, according to our resolution, we are to recess.

Senator NELSON. I would like, Mr. Chairman, to have Mr. Vanderlip permitted to go through and indicate what he thinks are the effects in this bill, and what he thinks ought to be the proper form of the bill.

Senator HITCHCOCK. You mean instead of having the questions?

Senator NELSON. Yes. Let him make one clear statement, and then ask the questions afterwards.

The CHAIRMAN. If that is the pleasure of the committee, when the committee reassembles after the recess, we will do that. The committee will now take a recess until 2.30 o'clock p. m.

(Thereupon, at 1.05 o'clock p. m., the committee took a recess until 2.30 o'clock p. m.)

#### AFTER RECESS.

#### STATEMENT OF FRANK A. VANDERLIP—Continued.

The CHAIRMAN. You may proceed, Mr. Vanderlip.

Mr. VANDERLIP. I will adopt the method of taking the bill up section by section.

I object to the number of reserve districts. I explained this morning the reason for that. I believe that one would be the ideal thing. If that is not possible, any reduction below 12 is better than 12. I believe it would work much more satisfactorily with no more than 4. There would be a more intimate relation and better understanding between the managements, and with the four city centers, their geographical extent would be sufficient to express varying conditions, and for many reasons they would be preferable to 12. I still think that 1 would be preferable to 4.

I note that the bill says that—

No Federal reserve district shall be abolished or the location of a Federal reserve bank change except upon the application of three-fourths of the member banks of such district.

I think it would be an improvement to say one-half. It would be very difficult to get three-fourths to agree to a change which a majority might clearly see would be an improvement.

I am not going to confine myself entirely to offering objections to the bill, but discuss it generally. There is a very general objection, on the part of many bankers, to being required to subscribe to the stock. That is not pleasant, but I believe it is necessary in order ever to get a bill into operation. I think one bank would be waiting for another, and without the required subscription to the stock it would be very difficult ever to get the reserve bank started. The amount of the stock issue subscription seems to me correct.

Senator REED. What page are you dealing with?

Mr. VANDERLIP. Page 3. There certainly should be no bank organized with less than \$5,000,000 capital, and I believe it is desirable to increase that amount and not have too small Federal reserve banks.

Senator NELSON. If we had four we could easily increase that?

Mr. VANDERLIP. If you had four you could have a capital of \$25,000,000, if all the national banks came in.

Senator POMERENE. When you speak of the amount, you mean the amount of the capital stock of the original bank, and not the amount which the member bank is required to subscribe?

Mr. VANDERLIP. I referred to the amount that each member bank is required to subscribe when I said the amount seemed correct. I have no objection to the 20 per cent of the stock of a member bank being the amount it must subscribe. There is, of course, objection to that on the part of the banks that feel that that is a forced use of their capital at a lower rate than they are in the habit of earning.

Senator HITCHCOCK. What would you think about organizing one or two at the present time on a voluntary basis, allowing the others to come along naturally?

Mr. VANDERLIP. I am afraid that on a voluntary basis you would have every bank waiting to see what would happen, and you would not get anywhere. This is not a house that you can build a story at a time. The principles which must be involved in correct legislation are so interrelated that you must recognize and embody practically all of them to have a workable system.

Senator HITCHCOCK. What would you think about making it obligatory upon banks of a certain capital, say, \$250,000, and optional with smaller ones?

Mr. VANDERLIP. That would probably save the national banking system from a great depletion of national banks. I believe if the bill passed in its present form a great number of small banks would certainly go out of the national banking system, and possibly a great many large banks would also. In some States there would undoubtedly be a tendency to turn national banks into State banks and then take time to consider whether they would join or not.

The bill leaves it optional with State banks. It is therefore quite possible for a national bank to convert to a State bank charter and take its time to see how this thing works.

There is no longer left any reason why a bank should be a national bank instead of a State bank, except a small profit that it can make during the next 20 years on note circulation. That is almost a negligible thing. But there is no other reason that I see where there is an advantage in a national charter over a State charter.

There are many reasons why a State charter is more advantageous than a national charter, and I should think there were likely to be many banks which would surrender their national charters and take out State charters, some, perhaps, immediately, and join the Federal reserve banks and others which wait and see how the thing works.

The CHAIRMAN. Mr. Vanderlip, if the country banks were to withdraw their reserves and not send them to New York, would they not have their money at home to lend at a higher rate and therefore make a profit out of it?

Mr. VANDERLIP. I do not quite comprehend your question.

The CHAIRMAN. You stated that from your own bank \$50,000,000 would be withdrawn?

Mr. VANDERLIP. Yes.

The CHAIRMAN. Where they now get 2 per cent. Since they would have a place where they could get money if necessary—out of the reserve bank—would they not be able to use the money they have now tied up at 2 per cent and lend it in their own neighborhood at a higher rate?

Mr. VANDERLIP. With the reduction in the reserve requirement the country banks could extend their loans a good deal. That reduction would lead the country banks to extend their loans.

The CHAIRMAN. Then it would be beneficial for them, would it not?

Mr. VANDERLIP. I think in a reduction in the reserve requirement down to a point that is safe for the bank to run on so that it may extend its loans would be beneficial for them.

The CHAIRMAN. And if the country banks had a place from which they could get money instead of, as now, relying upon the central reserve cities, they would rely upon the central reserve bank and in that way could lend the money which they now have tied up at 2 per cent.

Mr. VANDERLIP. Yes; the country banks would undoubtedly be pretty well situated and satisfied if the Senator's suggestion that banks of \$250,000 be compelled to come in and the smaller banks not be compelled to come in.

Senator WEEKS. All of that \$50,000,000 to which you referred would not be available to loan, because the country bank would have to transfer a certain part of it to the reserve bank.

Mr. VANDERLIP. There is only 3 per cent; the difference between 15 and 12 per cent.

I was going to say that the country bank would probably welcome the organization of such a system which would be imposed only on the larger banks, leaving them to operate outside the system, and with the assurance that the larger banks, through the facilities of the system, would always be in a position to rediscount for them. The average country banker would rather do this business with his old correspondents than take the chances of having to rediscount with the new Government organization, which will impose a good many regulations that might be trying to the borrower.

Senator HITCHCOCK. Would not there be another advantage in that—that a country bank in a western State, doing business through a correspondent, would rediscount paper with the correspondent, and that correspondent, if necessary could rediscount that paper with the reserve bank. The reserve bank would naturally discount a good deal of paper for the larger western banks that would in turn discount for the smaller banks?

Mr. VANDERLIP. Undoubtedly.

The CHAIRMAN. The country banks would get the benefit of the system without bearing any of its burdens?

Senator REED. Not all of the benefits.

The CHAIRMAN. They could get the accommodation they wanted from the reserve city banks.

Senator REED. They still would be required to keep in their own vaults their full reserve when this system was working. They could not put it into the central bank or the regional bank and have it earning anything.

The CHAIRMAN. The suggestion of Senator Hitchcock, as I understand it, would involve the keeping of the reserves as they are at present if those banks did not come in?

Senator HITCHCOCK. Yes.

Senator REED. Of course they lose some advantage. But they would have this advantage: They would get relief through the relief

which could be given to the larger banks, the larger banks in turn accommodating them.

Senator HITCHCOCK. I do not see why they should not be permitted to keep their reserves with the regional reserve banks as well as with a member bank.

Senator BRISTOW. A number of country bankers who have appeared before us say that 5 per cent reserve is not enough for them to keep in their vaults; that they require more than that. Most of them say they carry from 8 to 10 per cent.

Mr. VANDERLIP. Under the new conditions they probably would find that they would not need as much in their vault as they need now; that is, if they were close to a reserve bank or a branch of a reserve bank where they could quickly get additional currency. There might be banks where 5 per cent would not be enough. On the other hand I think there are many banks where 5 per cent is more than necessary, and when I come to the section about reserves I should strongly recommend that the banks be not compelled to keep 5 per cent in the vaults, but to keep as small an amount as they choose, and that they ought to have an option as to where they keep it.

Senator WEEKS. If that option were given to banks in a center like New York, they would keep substantially all the reserve in a reserve bank?

Mr. VANDERLIP. Substantially all of it; only keep till money. We would prefer to carry a bank credit than the actual cash.

Senator SHARROTH. You could borrow part of it back, also?

Mr. VANDERLIP. Yes; that is, the member banks could borrow back and use it in other transactions. Two-thirds of the deposits reserves the reserve banks could use in the ordinary transactions of their business.

The CHAIRMAN. His suggestion was as to the country banks, which are required to carry 5 per cent with the reserve bank, 5 per cent in their own vaults, and 2 per cent optional; that they have practically 7 per cent optional, so that they could use that without its being a violation of the rules, and 5 per cent could be loaned.

Mr. VANDERLIP. Now, Mr. Chairman, passing on to the election of the directors of Federal reserve banks, it is provided that all the banks shall be divided into three groups of equal number, and as nearly as may be of similar capitalization in each group. Taking the country as a whole that would result in groups of 2,464. The first group would represent \$67,000,000 of capital; the second group \$142,000,000 in capital; and the third group, \$836,000,000 in capital. You therefore propose to give the same voting power to representatives of \$67,000,000 in capital that you give to representatives of \$836,000,000 in capital. I question whether that is fair or not. In any event I see no permanent purpose in this division into groups.

In the first election each group is to elect one director, as I understand it, and thereafter only one director is elected at a time, because the terms eventually become three-year terms and all the groups will be voting for one candidate. As I read the bill this division will only apply to the first directors elected.

The power of the Federal reserve board to remove, at its discretion, the directors of class B is objectionable. It is declared that they may remove if it appears at any time that any such director does



not fairly represent the commercial, agricultural, or industrial interests of his district. I do not see exactly how a Federal reserve board is to be a good judge of whether the director fairly represents those interests or not. In any event, it is obvious that the control which the Federal reserve board will have over the local Federal reserve banks might be subject to bad use, as long as it can remove the three directors that it appoints, and can also remove three other directors that have been elected. It is true that the removal of those directors could be followed by the election of other directors by the stockholders, but it seems to me an unnecessary power, and I know that bankers generally regard it as one of the distinctly unsatisfactory features of the bill.

Senator SHAFROTH. Would not the fact that the three directors had to be reelected by the stockholders act as a deterrent on the part of the Government or the administration in removing them unless there was good cause?

Mr. VANDERLIP. I can imagine a Federal board telling those three men to shape their views to coincide with the views of the Federal reserve board or they would be removed, and rather than be removed they would shape their views that way. I think this might allow a malign influence.

Senator SHAFROTH. That would not be a removal on the ground that they did not represent the commercial, agricultural, and industrial interests of the districts they represented.

Senator NELSON. It is discretionary; it would be simply their judgment that they did not represent them.

Mr. VANDERLIP. And there is no appeal from that.

Senator NELSON. There is no trial of that issue. They could simply assign that as a reason, as a ground, without any foundation in fact.

Senator SHAFROTH. I do not believe they would do that.

Mr. VANDERLIP. Section 7 provides for the division of earnings. It tends to make the bank managers run the banks for profit, as I understand that the way the earnings are to be divided is that they are proportionate to the deposits.

Senator HITCHCOCK. Does not that tend to the mobilization of reserves?

Mr. VANDERLIP. I do not comprehend that it does in the least.

Senator HITCHCOCK. If you offer an inducement for the banks to keep substantial deposits there, that certainly intensifies mobilization. A bank might keep its required reserve and nothing more, but if it has an inducement to keep more, if there is any virtue in mobilization, this encourages mobilization.

Mr. VANDERLIP. I think that this reserve might better be employed as a basis for commercial loans in its community.

Senator HITCHCOCK. That is assuming that the reserve has been fixed at the ideal point, and it is assuming that it can make the loans in its own community. Suppose it has a surplus. Instead of lending that surplus and that deposit, it has an inducement to put that in the reserve bank.

Mr. VANDERLIP. It would no longer deposit it in other banks.

Senator REED. One of the arguments which has been made for this or some similar measure has been that there is a shortage, at times,

of money in one section of the country and a surplus in another. There is a shortage in one community and a surplus in another, and it has been argued that if this surplus, wherever it existed, went into a center, then it would be in a position to be loaned out to the part of the country that wanted that money. You do not think there is much in that argument, I take it?

Mr. VANDERLIP. No; that is not exactly the correct theory in the bill, as I see it. The surplus will not be put in as a reserve, but in the discount market, to buy commercial paper, where the interest rate is high and the need is great.

Senator REED. Not as a reserve, but the idea, to express it a little more fully, as it has been urged here with persistence, has been that there is always enough money in the country to do the business of the country, but that it piles up in some one city, we will say, in New York City, at a given period of the year and that at the same time they need money in some other part of the country. It has been said that if a proper bill were drawn it would make that money available at all times where it was needed.

Now, assuming that the reserve bank has in it simply legal deposits, that is, legal reserves, and that there was a profit to be realized from the operations of that bank, and that there was a surplus of money in the banks of some section of the country, the question is whether they would then be deposited and the reserve bank be put in a position to discount paper which came in from other banks and to relieve the situation of that community?

Mr. VANDERLIP. The situation would be relieved in two ways. A bank in a community where there is a plethora of funds would keep its reserve with a reserve bank, but would use its surplus of loanable funds to buy in the discount market, paper that originated in a community where there was a deficiency of funds. The bank in the community where there was a deficiency of funds would be able to rediscount at the reserve bank, and make good any depletion that that demand for funds had caused in this reserve. So that a proper measure will operate in those two ways, the creation of a discount market, and the creation of a central reserve reservoir; and the institution that can rediscount for the banks whose reserves are depleted having all the reserves in this reservoir, has a basis for this power so to rediscount.

Senator REED. You would apply that simply to the reserves and not to the surplus over the reserves?

Mr. VANDERLIP. The banks in the district where there is easy money will probably not keep any more than their legal reserve with the reserve bank. They will employ that in the discount market. If they can not loan it in their own community they will go where they can get a higher rate.

Senator REED. That would be true to-day. Now, the question is—

Mr. VANDERLIP (interposing). It is not altogether true to-day Senator.

Senator REED. If we apply this system, is there any advantage in having the reserve bank always in a position to receive surplus moneys from one community and buy the paper of another community where they need that money?

Mr. VANDERLIP. That is not the business of the reserve bank. The surplus moneys of one community should be invested in the discount

market in the purchase of paper originating in the other communities. The business of the reserve banks is to hold the reserves and to discount for reserve purposes the paper of member banks, but not to invest here and there, according to whether money is easy or not.

Senator REED. Then we come to the proposition that you do not think there is very much in the argument that the central bank, the reserve bank, would become the market place in which the surplus of the community would be transferred to the other place?

Mr. VANDERLIP. I think it would be very bad banking, and if it did become the market place, the market place would be the discount market, and that you can not create without a central bank. In order to have a discount market you have got to make liquid the commodity you sell there; that is, commercial paper. You can only do that by having a central bank, to which the purchaser can go to rediscount. A central bank is necessary for the creation of a discount market, and the discount market is the place where surplus funds will be invested.

Senator WEEKS. Let me ask you if you do not think the greatest difficulty in our situation in the past has been that under our law New York and the central reserve cities have really been put in a position of creating central banks, and that those banks have been given the power to recoup their resources in case of a strain, so that New York has really been the clearing house of all their troubles?

Mr. VANDERLIP. We have a one-armed central bank. We have held the reserves and had no power to issue notes, and the moment circulation was diminished we have had to give up our reserves. It has been an impossible rôle to play. It has been like creating a central bank without creating a note-issue privilege.

The CHAIRMAN. It also compelled you to lend on the stock market, did it not, on call loans?

Mr. VANDERLIP. We are absolutely compelled to do it. There is no desire whatever for the banks of New York to loan upon stock-exchange collateral. Why should they want to loan at 3 per cent when they could otherwise get 4 or 5 per cent? They are compelled to do it, because they are compelled to have this secondary line of reserve. They are compelled to place their funds where they can get them back quickly.

When a New York bank buys a piece of commercial paper, that paper has got to lie in its portfolio until it matures. There is nothing the New York bank can do with it. It will not do to invest its funds in commercial paper. It must invest in something it can turn back into money if its country correspondents demand money. So we have hundreds of millions of dollars invested in call loans.

Senator WEEKS. Do you believe, Mr. Vanderlip, that you express the views of New York bankers generally on that subject?

Mr. VANDERLIP. In just what particular?

Senator WEEKS. I mean in the particular that it is undesirable to loan so much money on stock-exchange collateral.

Mr. VANDERLIP. I think so.

Senator BRISTOW. Mr. Vanderlip, if you did not pay interest on these reserve deposits, you would not have to make these loans in orders to keep even, would you?

Mr. VANDERLIP. Well, we are doing business for profit. That is the object of running a bank.

The CHAIRMAN. You have to do that in any event in order to have quick assets; in order to have a quick reserve you have to do that?

Mr. VANDERLIP. Yes. I do not care whether it is bank deposits or anything else; you have got to have a quick reserve. Our legal limit is 25 per cent. If we get a call that takes us below it, we are in an illegal position and we have got to be able to recoup ourselves. We can not sit still and wait for a commercial note to mature. We have got to get money. In order to do that we must have some of our funds in call loans.

Under the new plan our commercial paper is available for money. Now when we make a commercial loan it must mature. Under the new plan we will have two ways of converting it into money—one to sell it in a discount market and the other to take it to the reserve bank and rediscount it.

Senator BRISTOW. Having these millions upon which you are paying 2 per cent, it becomes imperative that you get some return, does it not?

Mr. VANDERLIP. It is imperative, anyway, Senator, that we have invested some of our funds that we can quickly realize on. Suppose the New York banks had no bank deposits, but merely commercial deposits, and suppose the reserve was fixed at 25 per cent, or any other amount. The desire to make money will tend to make us loan down to the legal minimum of 25 per cent. If we have any sudden call from any customers and get below our limit, it is necessary to recoup ourselves. In order to do that we have to have some investment we can dispose of. We can not dispose of commercial paper.

All we can do is to sit and wait for the commercial paper to mature. So we must either carry an investment or make a loan on call that we can get back. You get commercial paper which has the quality of being turned into cash and you do away with this necessity, and there is no motive but necessity for investing in call loans.

Senator REED. You could carry a sum much larger than your legal reserve and use that, but that would cut into your profits very materially?

Mr. VANDERLIP. Yes, sir. If you are running a bank for profit, you would run with as low a reserve as permissible.

Senator NELSON. The other alternative would be that these \$180,000,000 that you have in call loans—the other alternative would be to keep that money in your vaults?

Mr. VANDERLIP. Exactly; and the figure is much larger than \$180,000,000. That figure is what out-of-town banks are loaning in the call-loan market at the moment.

Senator NELSON. If you could not have a secondary reserve, you would have to have an immense primary reserve?

Mr. VANDERLIP. You have got to have it in one or the other.

Senator HITCHCOCK. I think you testified that the average rate was 2.96.

Mr. VANDERLIP. The average for the last five years.

Senator HITCHCOCK. And your own deposits cost you 2.66?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. So that your net earnings are one-third of 1 per cent?

Mr. VANDERLIP. That would be the case if we invested all our bank deposits in call loans.

Senator HITCHCOCK. Just take it for illustration; there is a margin of one-third of 1 per cent?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Suppose you stop paying interest and simply invested these country bank deposits in perfectly good bonds which fluctuate very slightly. Why would not the country be better off, and you be better off?

Mr. VANDERLIP. Bonds fluctuate very slightly, unless they are forced upon the market at a time when there are no buyers. Suppose we are in the position of having invested the reserves of the country in bonds, and the country wanted those reserves from all New York banks that had done that. Our position would be very precarious. We would have to sell the bonds in order to get money, and there would be no buyers. We would have to take losses.

Senator HITCHCOCK. Suppose you invested only one-half of your reserves in 4 per cent bonds; you would be better off, as far as interest was concerned; you would have a larger amount of cash.

Mr. VANDERLIP. We do invest some part of the bank surplus in bonds. The National City Bank carries about \$30,000,000. I regard that as a proper investment for a portion of a bank's capital. I do not regard it as a proper investment for any considerable amount of a bank's deposits.

Senator HITCHCOCK. What would be the effect if the law prohibited you from paying interest on reserves?

Mr. VANDERLIP. It would be rather a happy effect for the New York banks, I should think. If the reserve law were the same as it is at present, we would hold less of the money of the country banks.

Senator HITCHCOCK. More would be kept at home, would it not?

Mr. VANDERLIP. Not very much more. They keep at home all they need. It is as I have said. In the event of the establishment of this central reserve bank, a New York bank would keep about all of its cash with the central reserve bank. A bank would rather have a sound-bank credit than to be burdened with cash, if it does not need the cash. I do not believe that a country bank would keep any more cash than it needs.

Senator HITCHCOCK. Is there not an inconsistency in arguing against a reserve bank dividing its earnings, as a party at interest, on country bank balances, and yet advocating the paying of interest on country bank balances by New York banks?

Mr. VANDERLIP. The function of the two is entirely different. The New York banks are run for profit; that is why they are there. If conditions are such that they can not make profits, they will not be there. The Federal reserve banks ought to be run for the conservation of the resources of the country.

Senator HITCHCOCK. Because the New York banks are run for the purpose of making money it has been deemed disadvantageous to have the large balances pile up there under the form of investment, but because the reserve banks are run for the benefit of the country it seems to be desirable to pile up reserves there and mobilize the balances of the other banks. So it seems to me your arguments ought to be reversed, and you ought to be in favor of not allowing the New

York banks to pay interest, and you ought to be in favor of having the reserve banks pay interest.

Mr. VANDERLIP. I would prefer to have the surplus funds invested in the discount market, so that the money will find its way into some other channel, in fact, where the demand is greater and the interest rate higher.

Senator REED. How would you reach this stock-exchange call loan proposition? Would you do it by prohibiting the loaning of money upon stocks as collateral?

Mr. VANDERLIP. I think nothing could be more foolish.

Senator REED. How would you do it?

Mr. VANDERLIP. I would do it by providing a place to rediscount commercial paper, so that banks can have their commercial paper liquidable, and they will then need no prohibition. They will loan where they will get the highest rate. As long as commercial paper will pay a higher rate than a stock-exchange loan they will loan through buying commercial paper.

Senator REED. Suppose the stock-exchange rate went up, would they not be in danger of going there and investing their money unless they were prohibited from doing it?

Mr. VANDERLIP. Is there anything criminal in a man's owning security and borrowing on it?

Senator REED. Not the least; but we are speaking of the objection which you described as dangerous this morning, namely, the loaning of money on call upon stock-exchange securities, which you said was an element of danger. We want to avoid that. I am asking you to tell us, as a practical man, how that can be avoided. We have already spoken now of the plan for providing a place where banks can cash their commercial paper, which removes a part of the temptation that now is before the bank; indeed, we might say the necessity which is now before the bank.

I want to know how we can absolutely prohibit that kind of business. Is there any way you can do it? A moment ago you characterized my suggestion as a very foolish one.

Mr. VANDERLIP. Oh, no; I did not know you made that suggestion. I characterized as foolish a suggestion that would prohibit any loaning upon corporate securities. It would not only be foolish; I think it would be disastrous.

Senator REED. I did not make that suggestion. I asked you a question.

Mr. VANDERLIP. Yes.

Senator REED. Then you leave the banks free——

Mr. VANDERLIP (interposing). I leave the banks free. Now, they are under necessity to do this, but under the new condition they will not be under a necessity. And they never will do it unless the stock-exchange loan pays more than the commercial loan.

Senator NELSON. And, as a rule, they do not?

Mr. VANDERLIP. As a universal rule they do not now.

Senator REED. But you see no objection, if a man wanted to borrow money of a bank and came down and wanted to give his note for 1 day or 30 days presenting as collateral the stock of the Steel or a railroad company——

Mr. VANDERLIP (interposing). I see no objection to that form of loan, but I see no objection to it becoming the predominant thing

and the only basis for the secondary reserves which is our present situation, but I see no objection to that type of loan.

Senator REED. In other words, if a bank had some of that, but had some place to go and cash its commercial paper when it needed money no danger would exist beyond the short time call loans?

Mr. VANDERLIP. That is the exact statement of it.

Senator BRISTOW. Now, Mr. Vanderlip, in answering Senator Hitchcock when he suggested that if you had this money that you have in call loans invested in good 4 per cent bonds, it would be more profitable than carrying, as you do now—when you get only about one-third of 1 per cent—your objection was that you could not realize cash on the bonds?

Mr. VANDERLIP. Yes, sir..

Senator BRISTOW. Now, if you could take those bonds to the Federal reserve bank and get cash would it not answer the same purpose?

Mr. VANDERLIP. I would consider that absolutely wrong in principle.

Senator BRISTOW. Now, why?

Mr. VANDERLIP. For this reason: It is simply a shifting of the loan, and there is no way of immediately liquidating that loan. The only way holders of such a loan can get their money is by shifting it from one place to another. The thing that should be the basis of all loans at the central bank should be their inherent self-liquidating quality.

Senator BRISTOW. You expect the central bank to collect this loan and you be relieved entirely—the Federal bank collects this paper which you rediscount there, does it not?

Mr. VANDERLIP. Practically, yes.

Senator BRISTOW. And you have nothing more to do with it?

Mr. VANDERLIP. No; we have rediscounted it. It is in their portfolio, and when it becomes due it will be paid at whatever point has been provided in the note, supposing there was no intervention on the part of the discounting bank. It might be that the bank discounting the note would want to have the note in its possession and get it paid and would substitute some other note of a longer maturity a few days before its own maturity.

Senator BRISTOW. How is that? The bank that discounted it would take another note, and they would take that other note up.

Mr. VANDERLIP. It would be quite likely, if it wanted to take up its loan at the central bank. It would then substitute a new note for a maturing note, and it is to be presumed it would do that a day or two before the maturity, so as to have the note in its own hands when it matured.

Senator BRISTOW. And then, if it wanted to extend that note, or collect it—

Mr. VANDERLIP (interposing). It would be free to do what it chose.

Senator BRISTOW. That would be very convenient for the bank that was in the same city where the Federal bank was, but it would be very inconvenient for a bank that was 1,000 miles away from that city.

Mr. VANDERLIP. There never ought to be that distance intervening. There should be many branches. I have no objection to multiplying branches as much as you choose, within reason. I think no banks should be more than overnight from a branch, and in the practical

working out, it should probably never be but a few hours away from a branch. It would be with the branch that this paper would be lodged.

Senator BRISTOW. Now, in the country a vast amount of this bankable paper is not expected to be paid, and is not paid; it is renewed from month to month. I think that is not true in the cities so much. But would not this system put that country bank that does not have this three-months' paper under a very great disadvantage as compared to the city branch?

Mr. VANDERLIP. Yes, sir; it would put that country bank at some disadvantage as compared with a State bank doing business in that city, because the State bank would say to the customer, "We will make a nine-months' loan to you." The national bank would say, "We will make a three-months' loan, and we will renew it." The customer would say, "Maybe they will renew it and maybe they won't. Perhaps it would be better to make this for nine months, and I will go to the State bank." There is going to be that disadvantage, and that is one of the reasons why there will be a change of small banks into State banks.

Senator NELSON. In that connection, would there be any harm in extending this paper from 90 days' to 6 months' maturity—not all of it, but a certain proportion of it, I mean. Would there be any harm in allowing the bank to take a certain proportion, say 25 per cent, of 6-months' paper—

Mr. VANDERLIP (interposing). In principle I should rather be against that. I believe there is enough 90-day paper for all the needs. Take a bank that makes all of its loans for 6 months. Naturally half of that bank's portfolio is always 90-day paper, if it does a business that is the same the year around, a business that is continuous. I believe there will be ample 90-day paper.

The CHAIRMAN. I remind the committee that the table I put in the record shows there is over \$36,000,000 of 90-day paper available.

Mr. VANDERLIP. You must remember that the rediscounts of national banks now are comparatively small. I believe the figures show \$109,000,000 as the highest they have been in a long time. The average country bank never borrows; it is only the exceptional bank that borrows. I think there will be no shortage of 90-day paper.

Senator WEEKS. Well, under the present system the reserve banks have discouraged borrowing, which has kept the natural borrowings down to a minimum.

Mr. VANDERLIP. The borrowings will naturally be much larger under this system. It is not considered very good practice for a bank to borrow except in the South, where it is the general practice.

To go on with the detailed suggestions, on page 13 it is provided that there shall be—

a sinking fund to be held for the reduction of the outstanding bonded indebtedness of the United States, said reduction to be accomplished under regulations to be prescribed by the Secretary of the Treasury.

That is leaving very broad discretion with the Secretary of the Treasury. It seems to me it might be better to amplify what the ideas of Congress are in regard to the reduction of the debt. I would rather see it made more definite as to just what the ideas of Congress are with reference to the reduction of the debt.



Senator REED. You would want the law to prescribe?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. What would you say, Mr. Vanderlip, to a proposition to try to pay the national debt in connection with this legislation?

Mr. VANDERLIP. I think it very desirable to pay the national debt. The objection which some have raised to this, that there would no longer be any basis for note circulation, disappears with this measure, and it would seem a most appropriate time to consider the ultimate retirement of the national debt.

Senator WEEKS. Is not that basis of note circulation the only reason the sinking funds have not been made applicable to the payment of the debt, and has there been any other single reason why the debt has not been paid?

Mr. VANDERLIP. I think there is no other single reason, and I think there has been a good deal of neglect on the part of the Treasury Department in not keeping up the sinking fund.

Senator NELSON. It would be a good plan to devote the whole of this sinking fund to the retirement of our national debt?

Mr. VANDERLIP. Admirable.

Senator NELSON. And put it in specific terms in the bill?

Mr. VANDERLIP. Yes, sir; rather than leave it to the discretion of a bank. We already have laws providing for sinking funds, but for years they have not been very carefully observed.

Senator REED. Would you use any means of retiring the debt except the employment of a sinking fund?

Mr. VANDERLIP. I think it is always an admirable thing for a country with a surplus revenue to devote that to the retirement of its debt, rather than incur unnecessary expenditures.

Senator NELSON. There ought to be a provision in the bill that when the surplus exceeds a certain amount it shall be devoted to the payment of the debt.

Mr. VANDERLIP. That would be a wise provision.

Senator NELSON. Would not \$100,000,000 be ample? I mean, whenever it exceeded \$100,000,000—

Mr. VANDERLIP (interposing). \$100,000,000 is less than the Treasury has usually had as a free asset.

Senator NELSON. What would you put the figure at?

Mr. VANDERLIP. Making a very offhand guess, without any study of the subject, I think \$125,000,000 would be an ample Treasury free asset.

Senator NELSON. Or, put it a little higher and say \$150,000,000. Whenever the surplus exceeded \$150,000,000 the overplus should be devoted to the retirement of the national debt from time to time. Would not that be a good plan to put into the bill?

Mr. VANDERLIP. I think it would.

Section 10 of the bill provides for State banks being converted into national banks, or for State banks becoming members of the Federal reserve bank without being converted. They are permitted to do this upon a regulation provided for—

Senator REED (interposing). You refer to the last three lines on page 15, "under such rules and regulations as it may prescribe"?

Senator NELSON. It is lines 21 and 22 on page 15.

Mr. VANDERLIP. I am now looking on page 16 at line 16. It reads:

Such by-laws shall require applying banks not organized under Federal law to comply with the reserve requirements and submit to the inspection and regulation provided for in this and other laws relating to national banks.

That word "regulation" needs more definition, it seems to me. It is going to become very important under what terms you will admit State banks to membership in the central reserve banks. If they are to have all the regulations that apply to a national bank, they might as well be converted into national banks and there is no need of permitting them to become members.

Senator NELSON. Let me interrupt you by stating that one of the bankers here—I do not recall his name—made an objection to that word "regulation." He held the effect of it was to compel them to do just what the national banks did in every respect, and on that account he objected to the word.

Mr. VANDERLIP. That would be my own opinion. If they are to be regulated so that in every respect they must do just as a national bank, then they might as well be a national bank and there is no point in permitting a State bank to become a member. I think that ought not to be left to the Federal board to determine either. I think the law ought to be pretty specific, so we will know what a State bank can do and under what terms it may become a member.

Senator REED. Then, too, if there were a regulation made by the Secretary of the Treasury, I presume there is nothing in this bill—I see nothing—to keep the next Secretary of the Treasury from changing the regulation.

Mr. VANDERLIP. Nothing.

Senator REED. There would be rather an uncertain tenure?

Mr. VANDERLIP. Yes.

Senator NELSON. How would it do to substitute the words "submit to the inspection and supervision"; substitute the word "supervision" for the word "regulation"?

Mr. VANDERLIP. As I remember it, Mr. Glass in his exposition of the bill said that the reserve requirement, the capital requirement, and the examination requirement were all that this meant. If that is so, it ought to say so. It does not say so in the bill.

Senator HITCHCOCK. Then, a State bank, like a foreign exchange bank in New York City having branches, could become a member under this system?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. That would be a considerable advantage over a national bank?

Mr. VANDERLIP. Very much. And the thing you are in danger of doing here, is passing a bill that will make all national banks turn State banks, and, instead of consolidating the banking business under the national charter, you are going to disperse it. If there were some way of attracting State banks into this scheme rather than putting a premium on national banks going out of it, the ultimate success would be very much more probable.

Senator WEEKS. If you were managing a State bank and this bill were put up to you as the law, you probably would hesitate about going in until you had seen how it was working?

Mr. VANDERLIP. Being in the fortunate position of having an option whether to go in or not, I would wait. I would take advan-

age of my position and see how it worked. I would see what this word "regulation" meant. I would see what the success of the measure was likely to be.

Senator WEEKS. Naturally, if other men felt in the same way, we need not expect to see State banks go into the system at once?

Mr. VANDERLIP. Not at once.

Senator REED. You said that the foreign exchange bank which has branches would have an advantage over the national bank?

Mr. VANDERLIP. Yes, sir.

Senator REED. If you let it come in?

Mr. VANDERLIP. So will any State bank organized under the laws of New York, because they have much more liberal privileges than national banks.

Senator REED. How are we to equalize that so that the national bank will not suffer by virtue of that situation?

Mr. VANDERLIP. By seeing if you can not extend some privileges instead of putting all your attention on new prohibitions. That seems to me to be one direction that the committee's thought ought to take, so as to undertake to attract State banks into this system.

Senator REED. Yes; but what I am speaking of is this: Here is a bank with a lot of branches. That gives it an advantage. Now, we bring that bank into the system and give it the advantages of this system. Now, we have created an institution that is empowered to do the very thing that all national banks are denied the right to do. Would you suggest extending to national banks the right to have branches?

Mr. VANDERLIP. I certainly would suggest it, in the cities in which they are located. There is no conceivable reason, to my mind, why that should be prohibited. As a matter of fact, the act does not at present prohibit it. There has been a ruling of the comptroller; there has never been a court decision on the subject. But it would be highly desirable if the national banks could have branches within the city where they are located.

Senator REED. And you would limit it to their city?

Mr. VANDERLIP. I would.

Senator HOLLIS. Why limit it?

Mr. VANDERLIP. It is a question on which there are certainly two points of view. The strength of an institution that is practically under one control, is very much greater than that of an institution with branches all over the country. There would be this on the other side: There is such political prejudice—a prejudice that seems to me very unreasoning—against it that I have almost ceased to think it possible to talk about having general branches for a bank.

Senator REED. But you think that if they were limited to the city in which the principal bank exists, that would be placing such a limitation upon their extent as to meet, at least in a measure, the objection that they might grow too large and their influence become too commanding? Is that the thought?

Mr. VANDERLIP. That is my thought; and it would come as a surprise to the national bankers, because it would be the first advantage they had been offered since the creation of the system, I think. It would be a most happy thing to offer the national banks something in addition—

Senator REED (interposing). Would you limit the number they could maintain?

Mr. VANDERLIP. Not at all.

Senator REED. You would just limit it territorially?

Mr. VANDERLIP. There is one bank in London that has 100 branches in the city of London.

Senator SHAFROTH. Would that be satisfactory to the other banker?

Mr. VANDERLIP. You are legislating for the national banks, and it would be very satisfactory to them.

Senator SHAFROTH. All of them? Or would there be a rivalry against the one bank that had so many branches?

Mr. VANDERLIP. Then they would have to do better banking and compete successfully. No; I think that, on the whole, national banks would be glad to have that privilege.

Senator BRISTOW. It would reduce the number materially, would it not?

Mr. VANDERLIP. Yes.

Senator REED. Is there not a control which the Federal Government exercises over these banks which meets some of the objections which ordinarily pertain to combinations, namely, that the Federal Government can limit the amount of capital of a bank if it wants to, and it otherwise has a very complete control over it? That would be an offset.

Mr. VANDERLIP. Yes.

Senator REED. I am not committing myself to that, but I am suggesting the thought.

Senator NELSON. Now, Mr. Vanderlip, Canada has some 18 or 19 chartered banks, my recollection is, and they probably have over a thousand branch banks.

Mr. VANDERLIP. Yes.

Senator NELSON. Scattered all over. I do not know, but they have 2,000. I have heard the criticism made that those branch banks—for instance, out in the prairie Provinces in Alberta, Saskatchewan, and Manitoba—that they pull in the money in that country and send it down to the head banks at Toronto and Montreal, and drain the country. Then if they apply for loans to those branch banks, as a rule, they can not get any satisfaction, especially if money is a little tight, until they hear from the head bank at Toronto or Winnipeg. In other words, the system, as developed in Canada to that extreme, I do not think has worked as well as it might. What is your information on that?

Mr. VANDERLIP. I fancy a true analysis of that situation would show that those complaints were not well founded. We have heard the same complaints made that in certain Southern States they deposit money in New York and can not borrow any when they want it. I have looked up the record and find that they borrow five or six or seven times as much as they deposit. I presume you will find that these small western communities borrow very much more from the reserve city banks than they actually deposit in the banks.

The action of a bank with many branches is to equalize the supply of loanable funds, and the funds will flow where the interest rate is the highest. The interest rate will be highest in the smallest community, and I expect you will find that the Canadian banks have worked to the benefit of those few small communities rather than taken their funds and loaned them to the centers.

**Senator HITCHCOCK.** How do you interpret this paragraph now in relation to branch banks? Can a State bank having branches come in?

**Mr. VANDERLIP.** I am unable to interpret it and no one can interpret it until he can interpret the meaning of the word "regulation," and that must lie in the mind of the Secretary of the Treasury or the Federal reserve board.

**Senator REED.** You think, I take it from your remarks in regard to this section and the preceding one, that when a man comes to invest his money or go into a great system that involves his money, he ought to have fixed rules of law which prescribe his rights and specify his obligations that he should not be required to depend upon the individual opinion of some man, however good that man may be.

**Mr. VANDERLIP.** I wish I had the power to state my views as precisely as that. That is exactly what I think.

**Senator REED.** And you would apply that to the entire currency system, would you not, except where you come to the point of passing upon the question of whether a particular piece of paper is good or bad?

**Mr. VANDERLIP.** That is making the statement a little too sweeping. In general, however, wherever it is possible to put the specific thing in this bill, I would do so rather than leave it discretionary upon a board.

**Senator POMERENE.** What have you in mind as proper conditions or regulations upon which the State banks should be admitted into this system?

**Mr. VANDERLIP.** If you want to get the State banks into the system, then I would say have the capital the same as a national bank under similar conditions. Have the same examinations and the same reserve requirements. If you stop there, you must recognize that there will be more advantages under the State charter than under the national charter. If you impose all the conditions of the national charter on the State bank it would not accept them and would not come in. You have your choice.

**Senator REED.** That leaves us with the question still unsolved?

**Senator NELSON.** No; he has put in the limitations there. Capital—this provides for reserves—

**Mr. VANDERLIP** (interposing). Capital, reserve, and examination.

**Senator NELSON.** As to capital you would include an exception?

**Senator REED.** You said if you made their requirements too stringent on them and cut them off from their present rights they would not come in; if you made it too liberal, as I understood, Mr. Vanderlip, then the national banks might go in—

**Mr. VANDERLIP** (interposing). That is exactly what they will do.

**Senator REED.** Now, that leaves the question unsolved. The question is how we can keep the national banks in, and induces the State banks also to come into this system?

**Mr. VANDERLIP.** By liberalizing the terms of the national charter and the regulations under which national banks are operated so that they can compete fairly with the State bank.

**Senator POMERENE.** In what respect?

**Mr. VANDERLIP.** In respect to branches, in one particular; in respect to doing a trust business in another. I do not know that I would undertake to enumerate the advantages that a State bank has over a national bank, but those are different in various States.

**Senator BRISTOW.** But not loaning on real estate?

**Mr. VANDERLIP.** Never.

**Senator NELSON.** Nearly all the State banks can do that.

**Senator REED.** You are giving some very interesting testimony here, but we have come to a point now that is very greatly troubling me, whether this bill is not going to send all the national banks out of the system and into the State bank system, or else so limit the rights of State banks coming in that they will not want to come in. Now, I do not know if you are prepared to make your suggestions as to what advantages could be given to the national banks that are of a practicable and reasonable character, but I wish before you leave you would try to give us those suggestions.

**Mr. VANDERLIP.** I shall be very glad to submit those in detail.

**Senator WEEKS.** And at the same time the provisions which you think would induce State banks to come into the system.

**Mr. VANDERLIP.** Yes.

**Senator HOLLIS.** Do you not think, Mr. Vanderlip, that the mere name of national bank is of some value to them?

**Mr. VANDERLIP.** It is of some value in a small community. It is of no value in New York City, for instance, or any of the great cities.

To take up section 11, relative to the Federal reserve board: Here is the point, I suppose, that most bankers raise as the principal objection to the bill. It is a pretty general feeling that the bankers contribute capital for these reserve banks, should have representation on the Federal reserve board. I, myself, believe it would be very good, if they had a minority representation on the board. However, if that is impossible I particularly object to the constitution of the board in its present form.

I believe it is bad to have ex officio members on that board and to have ex officio members whose duties are already sufficient to engross their time fully. This will be a very important board; it will be a man's size job to be a member of this board. He ought to be devoting all his time to it. He ought to have experience. The board should have continuity. If you put Cabinet officers on that board they will of necessity go out with each change of administration, and may go much more frequently than that. They are fully engrossed, if they are properly looking after their other duties, and they cannot, I believe, perform in a creditable manner the duties of this Federal reserve board.

If it is going to be constituted entirely by Government appointment, I would increase the salaries, I would have longer terms, and I would have the men appointed devote their time to this work exclusively. Continuity of management is a great thing. You might have a change of the majority of the board on the change of a President. You make the thing the toy of politics in this way. It ought to be removed from politics as far as is the Supreme Court. I think it would be about as proper to appoint the Attorney General to the Supreme Court, because he happens to be in the Cabinet, as it is to put the Secretary of Agriculture on this board.

Senator REED. But don't you think the experience of the Secretary of Agriculture ought to be of value in handling a financial proposition of this sort? [Laughter.] But, Mr. Vanderlip, seriously, under the plan you suggest would you exclude the Secretary of the Treasury?

Mr. VANDERLIP. That is debatable. I should prefer to see a board of inspection created that was headed by the Secretary of the Treasury and that embraced the comptroller and any other Government officials you chose, which had the power of inspection anywhere down the line to see that the law was being obeyed. There are some reasons for putting the Secretary of the Treasury on, because he has the depositing of the Government moneys. There are other reasons; but this makes the whole board rather subservient to the Secretary of the Treasury.

The bill frequently says that things shall be done by the board under direction of the Secretary of the Treasury. This board ought to be superior to any Cabinet officer. It is not an appendage of the Treasury; it is a great organization. Members should be of the highest caliber; men that were paid salaries sufficient to attract and keep able men. Now, keep men; there is the point. You develop a good man here at \$10,000 a year and I will hire him at \$25,000. You want to pay men so you can keep them here. You want continuity of management.

Senator REED. It is true that this bill as drawn does frequently, as you say, say that certain things shall be under under the direction of the Secretary of the Treasury. But I call your attention to the fact that this bill requires that every dollar that is now in the Federal Treasury, except that held on special deposit, shall at once go into the banks, and every dollar hereafter gathered in by the Federal Treasury must at once go into the banks. And, of course, the special deposits, most of them, can speedily be removed there by using the gold and silver certificates to withdraw them. Now, if the Secretary of the Treasury is not to have a broad discretion, do you not think that provision ought to be changed so that the discretion would be vested in the Government to put all or part of its money in?

Mr. VANDERLIP. That would be much more desirable than to give the Secretary of the Treasury the power that is given here, where it says that the manager of the Federal reserve board shall be subject to the supervision of the Secretary of the Treasury and that the manager of the Federal reserve board shall be the active executive officer of the Federal reserve board.

The CHAIRMAN. You would strike out "Secretary of the Treasury" in that line?

Mr. VANDERLIP. I certainly would.

Senator REED. And you would modify the other section allowing the Secretary of the Treasury to have some discretion about putting the people's money into this institution?

Mr. VANDERLIP. I would not expressly object to that. I think non-partisanship is not accomplished when you say that not more than two shall be of the same political party; it rather emphasizes that the other two shall be of the same political party. I do not believe that helps the measure much.

Senator BRISTOW. Is not that an invitation to put partisans on the board?

**Mr. VANDERLIP.** Why, it is almost a command.

**Senator HITCHCOCK.** Would not the board be a good place to put our ex-Presidents? [Laughter.]

**Senator REED.** Barring one, you would answer "Yes," would you not?

**Mr. VANDERLIP.** I was thinking of that one. [Laughter.]

**Senator BRISTOW.** Some of us might think he was the very man to put there.

**Senator WEEKS.** Seriously, Mr. Vanderlip, you refer to paying the members of this board large salaries. Now, there is a standard of salaries in connection with the Government service which must be maintained, and it would probably be impossible to compete with the National City Bank in paying salaries to a board like that. Don't you think the honor of being a member of that board coming to a man who is fit to be a member would be sufficient so that he would accept such a place and serve, notwithstanding the fact the salary was not commensurate with the kind of service?

**Mr. VANDERLIP.** Undoubtedly there would be a tendency that way. The Government has a great advantage in that respect.

**Senator NELSON.** Would you not get superior men in that way?

**Mr. VANDERLIP.** Superior men at a smaller salary than at a larger one?

**Senator NELSON.** Than if you just made it a question of salary?

**Mr. VANDERLIP.** I should not make it just a question of salary by any means; I would make it so that the salary from somewhere else would not counterbalance the salary and the honor together.

**Senator HITCHCOCK.** A Cabinet salary?

**Mr. VANDERLIP.** It ought to be as high as a Cabinet salary, I should think. You want men for this position who are capable of earning large salaries. You want men who have earned large salaries, or who have been successful. You do not want unsuccessful men, financially speaking, in this business. You want men who have been successful.

**Senator BRISTOW.** Now, Mr. Vanderlip, do you think political appointments are made with a view to whether a man has been successful or not?

**Mr. VANDERLIP.** I do. I think they are frequently made with a view to the fact that he has not been successful.

**Senator BRISTOW.** That he has failed in the last campaign and needs a job. [Laughter.]

**Senator REED.** We can call them political appointments if we please, but the Supreme Court of the United States and all the Federal judiciary are appointed by a political power and confirmed by another branch of political power. And yet, speaking of the question at large, we have a very superior class of men in those positions, and that is because the position is regarded as one of great honor and not a position of profit, is it not?

**Mr. VANDERLIP.** Undoubtedly.

**Senator REED.** We have got to go to one source or the other for these guardians of this contemplated system. Either we must go to the banks, which may have a selfish interest, or we must go to the Government, or we must go to both.

**Senator NELSON.** The great business men are merchants?

**Senator REED.** Yes.



Mr. VANDERLIP. I am not nearly so much afraid of malign political influence as I am of lack of wisdom. I want to establish a continuity of management here. I want to see men qualified by experience. I am not so much afraid of the political side of this thing. I am very much afraid of the inexperience side of it.

Senator REED. And therefore willing to have always at least a majority of men on this board who are connected with banks and who are familiar with it?

Mr. VANDERLIP. Certainly, a majority; and I would say, as far as possible, men of long experience. Of course, some new men might get on.

Senator POMERENE. I am glad to hear you say you have faith in your Government.

Mr. VANDERLIP. Thank you.

Senator REED. Generally speaking, there has been a good deal of loose talk about politics, just as there has been a good deal of talk about banks. Sometimes it is justifiable and sometimes it is not justifiable. Do you think that any President of the United States would be likely to make these appointments without having a proper regard for the importance of the place that he is charged with the responsibility of filling?

Mr. VANDERLIP. When I look ahead I have a good deal of faith. When I look back, and see some of the appointments that have been made, my faith is shaken a little. I do not mean recent appointments; I mean looking back historically at men who have filled important places.

Senator REED. Let us take the position of the Secretary of the Treasury. Some of us have differed with the policies of the Secretary of the Treasury, but as a general rule they have been a pretty sincere type of men, have they not?

Mr. VANDERLIP. Yes; as a general rule.

Senator REED. And, making allowances for inexperience, they have done pretty well as a general proposition, have they not?

Mr. VANDERLIP. Yes.

Senator REED. Now, do you know any other way by which these men could be selected except by the banks or by the country?

Mr. VANDERLIP. No. We do not want to return to the old Spartan way of selecting by lot, I suppose. They should be selected one way or the other—by the banks or by the Government.

Senator REED. Are there not objections to banks selecting, which would be an objection to the bankers themselves? That is to say, if your bank had a friendly representative upon this board might it not be of great advantage to your bank? Pardon me for using your bank for illustration, but I was using it as an illustration of a class.

Mr. VANDERLIP. I think it might. But I shall hope it shall have a friendly representative upon this board, and that all banks will have a friendly representative upon the board.

Senator REED. I meant more than that. I meant a representative who might be specially interested in the bank. That would not be right, of course, but are not there just as many objections on that side as there are on the other when you come down seriously to talk about it, and that is what we are trying to do this afternoon?

Mr. VANDERLIP. I do not think there are quite as many, but personally I shall be satisfied with a political board if I am assured of its

continuity—that the members will be devoting their entire time to it and that every precaution is taken to make it of the highest possible type.

Senator REED. I think I agree with you on that, that the board ought to devote its entire time, unless it is the Secretary of the treasury.

Senator HITCHCOCK. What discretionary power do you think that board should have to regulate the volume of currency?

Mr. VANDERLIP. I think it should have none. I will come to that point later, when I come to that part of the bill. But it seems to me completely wrong that it might refuse a bank the privilege of taking out currency. Personally I think there should be no tax on that currency. So far as the Government is concerned, it is merely taking it from one pocket and putting it into the other. The people are the ones to determine the volume of currency. No one else can determine it. They will use bank notes, or they will use gold reserve; it does not make any difference to them. They will have in their pockets a given amount, and they will determine that amount. A bank note that does not count in the reserve is of no value whatever to the bank. It is only of value to the person who can use it in his pocket. I think there is no danger in giving these central banks the power to issue all the currency that the people will use. The banks can not use that currency. The people will use the currency. The currency is of no value in the hands of the banks, as it does not count as reserve.

Of course, to digress a moment, there is the trouble with your dual system of State banks and national banks, concerning the question of reserves with the State bank, and that is a trouble that you want to find some way, if you possibly can, to eliminate. I think the best way would be to construct a system so that it would be attractive to all State banks to come in. There is grave danger to the whole system; there is grave danger to the Treasury Department and to the Government in permitting a large amount of these notes to find their way into the reserves of State banks.

Senator HITCHCOCK. That is permissible in Germany now?

Mr. VANDERLIP. Suppose such a situation exists here. We have many millions of these new notes held in the reserves of the State banks, and suppose something happens that alarms the holders of those notes to an extent where they think it will be wiser to convert them into other forms of reserve money, into gold and lawful money. You might get a presentation of the whole mass within a short time. The redemption of them would be an almost impossible thing, for the amount would be so large. And in proportion to the size of it the danger is great. I know of no way you can prevent a State bank holding those bank notes in its reserve except to induce the bank to come into the national system, where you can properly bar them from the reserves.

Senator HITCHCOCK. I suppose it could be prevented in those banks, where they were subjected to the same laws which the national banks are subjected to.

Mr. VANDERLIP. That will apply to those who come in, but remember that there are \$12,000,000,000 of deposits in State banks now, against \$8,000,000,000 in national banks. Under this bill, I believe State banks will increase and national banks will decrease,

as it stands, so that the chance of getting a very great mass of these bank notes into the reserves, for the support of this \$12,000,000,000 of deposits, is serious.

Senator HITCHCOCK. Under this bill, as it stands now, how considerable do you interpret the power of the reserve board to be, as to the contracting or expanding of currency?

Mr. VANDERLIP. The bill is not clear as to whether this rate of interest, so-called, could be changed after notes were outstanding. I think there is a good deal of confusion about the rate of interest. It is not clear whether the Federal board could charge a different rate in different sections of the country or a different rate at different times to the same bank, or change the rates after notes were outstanding. I do not believe they should have either the power to refuse the notes or the power to tax them.

Senator HITCHCOCK. You think that whenever securities were presented to the reserve bank and it had the necessary gold reserve it should issue them?

Mr. VANDERLIP. The gold reserve is the limit.

Senator HITCHCOCK. Now, has not Germany, with practically that same law, rather gotten into difficulties?

Mr. VANDERLIP. Germany has saved itself from the greatest difficulties. The Reichsbank management is a monument to what can be done with a scientific banking system.

Senator HITCHCOCK. The Reichsbank notes are made reserve for the other banks in Germany?

Mr. VANDERLIP. That I am not familiar with.

The CHAIRMAN. And they are also made legal tender.

Senator HITCHCOCK. Yes; they are also made legal tender.

Senator REED. How much reserve in gold should there be held against notes issued?

Mr. VANDERLIP. I think the reserve provided for of 33½ per cent is ample.

Senator REED. You think that is much safer than now?

Mr. VANDERLIP. Yes.

Senator REED. And if made a little higher the system would be a little safer, would it not?

Mr. VANDERLIP. Undoubtedly. And if you will put a tax on deficiency of reserve instead of taxing the notes you will control the issue. There is the place to put the governor—a tax on the deficiency of the reserve?

Senator HITCHCOCK. That would be better; it would be permanent.

Senator REED. Make it graduated, though.

Mr. VANDERLIP. Yes; make it a graduated tax.

Senator HITCHCOCK. It would not be left to the option of some board?

Mr. VANDERLIP. No; and it ought not to be.

Senator HITCHCOCK. I agree with you there.

Mr. VANDERLIP. Now we come to this much-debated clause of the power to compel loans. I believe that is a necessary power as long as you have more than one central bank. The power to permit loans I do not consider is a necessary power to give to the Federal board. If these banks choose to loan to one another, very good. As a matter of fact, they will not choose so to loan. The management of the bank will leave it to the members of that bank to deal with the

members of another bank where the interest rate is high, thus having individual banks discount for individual banks rather than for the central bank to discount for the central bank in the high interest rate community.

Senator REED. There has been a matter, and your answer suggests the thought again, that has been bothering me a good deal. There have been a number of bankers here who have objected most strenuously to the provision that one of these reserve banks should advance moneys to another reserve bank, and they have said that is very wicked and very wrong, and yet in the same breath those gentlemen will advocate one central bank. Now, if all the money was put into one central bank, then that management would necessarily have to loan money to all of the member banks all over the country. And if there are 12 of these banks and the idea of one bank is so admirable, it seems to me the closer we draw the twelve banks together the nearer we are approaching the idea of one bank.

Mr. VANDERLIP. Certainly. The greater the decentralization here, by making numerous reserve centers, the more arbitrary the power you must give to the reserve board. If you make one reserve center you have to give no power to the Federal board at all, because the thing is accomplished. But with numerous centers arbitrary power, obnoxious as it is, must be given to the reserve boards in order to pipe those reserves together.

Senator REED. The more cooperation you have, the nearer you come to the strength that lies in one central institution?

Mr. VANDERLIP. And that is what you really are all after. You may not quite know it, but I think that is what you really all want.

Senator NELSON. That provision there, in effect, makes one central bank?

Mr. VANDERLIP. Certainly; except that in practical operation it will never work. Now, instead of saying that this is an obnoxious provisions and ought to be taken out, I am forced to admit I do not believe it is strong enough. It will never work. Why won't it work? Because loans can only be made at from 1 to 3 per cent above the highest rate prevailing. That, in the first place, is not very clear. I suppose it means above the highest rate prevailing in the community that is going to borrow. Why should a New Orleans bank borrow from New York at 3 per cent higher than it is loaning? It won't work; they won't do it.

Senator HITCHCOCK. Maybe that means 3 per cent higher than the reserve board is charging for currency.

Mr. VANDERLIP. Well, you have to look a long ways to read that meaning into it. At any rate it is not a clear law.

Senator NELSON. It has to be an interest charge to accommodate the banker. It is to accommodate the banker who has to pay it.

Senator REED. What is the highest rate at which he pays the interest?

Senator NELSON. Not less than 1 or above 3 per cent of the highest rate prevailing in the districts immediately affected.

Mr. VANDERLIP. But what does "rates prevailing" mean? Is it the rates charged by the central banks?

Senator REED. Manifestly, then, if New Orleans had a 6 per cent rate and New York had a 4 per cent rate and New Orleans wanted money from New York, under that provision the rate would at least have to

be 7 per cent to New Orleans, which is a rate higher than anybody pays down there. Now, why in the name of common sense would anybody want to borrow money under those terms? It was just as Mr. Vanderlip said.

Mr. VANDERLIP. They won't; the thing will not work.

Senator REED. All of which leads to the conclusion we ought not to look to this bill any further?

Senator WEEKS. Are you going to discuss the desirability of the same discount rate in all regional banks?

Mr. VANDERLIP. I will discuss it.

Senator WEEKS. Let me ask you a definite question: Why should not a bank in Oklahoma, having a piece of paper that comes within the requirements of the law, get a rediscount of that piece of paper on exactly the same terms that the New York bank would do with the same quality of paper?

Mr. VANDERLIP. As a matter of abstract right, I think it should. As a matter of prevailing interest rates in those two communities a similar piece of paper will bear a higher rate in an Oklahoma community than it will in New York, because of many reasons I do not need to go into.

Senator WEEKS. If we are going to make a national law, should it not be country-wide in its provisions?

Mr. VANDERLIP. I do not think it should necessarily be country-wide as regards the same discount rate for all of these banks.

Senator HITCHCOCK. Is not the present divergence of interest rate due to our peculiar system, which we are now proposing to abandon?

Mr. VANDERLIP. Not altogether. The more settled communities will have the lower rates in any banking system.

Senator NELSON. In that connection, we must not overlook the fact that paper discounted from Oklahoma might bear interest at 7 per cent, while paper discounted up in New York might only draw 4 or 5 per cent.

Mr. VANDERLIP. That is perfectly true.

Senator WEEKS. Is not that true to-day? But would it not equalize those rates in years to come if the discount rate should be made the same?

Mr. VANDERLIP. Never entirely.

Senator WEEKS. I agree with you never entirely, because developing sections would always carry a higher rate of interest.

Senator REED. Mr. Vanderlip, how are we going to adjust this proposition: Let us say that the prevailing rate for commercial paper in New York is 4 per cent; that the prevailing rate in my part of the country is 6 per cent. Now, the New York banker wants money, and he brings up 4 per cent paper and gets \$100,000 on \$100,000 worth of 4 per cent paper. The banker in Kansas City wants \$100,000 and he brings up 6 per cent paper and just gets \$100,000, yet his paper draws a greater rate of interest.

How is that to be adjusted in this law?

Mr. VANDERLIP. Why, he gets the interest on his paper.

Senator REED. He collects it himself?

Mr. VANDERLIP. He collects it himself. He has discounted the note and has gotten that.

Senator REED. Then the central bank has to collect this interest for him if they collect the securities. On the other hand, he can take

money there and take up his own securities. Now, is not that the way it will practically be done, instead of the central bank collecting the securities? Will not the bank secure the money and pay the note and take back the collateral while it has not matured?

Mr. VANDERLIP. Very likely. The average bank will dislike to have a customer know that it has rediscounted his note, and they will be glad to get the notes back before the day of maturity, in order to have the customer pay it over its own counter and hand the note to him.

Senator HITCHCOCK. Would he not know it has been rediscounted?

Mr. VANDERLIP. Yes, he will; because it will have to be indorsed; that is true.

Senator NELSON. But if you place the circulation on the discount value of the paper, would not that be a fairer basis than to take it on the mere face value of the paper?

Mr. VANDERLIP. That is what you will do, sir. It will operate that way. The amount of money you get is the discount value of the paper.

Senator NELSON. Yes; but it is not clear in the bill, if you will notice.

Mr. VANDERLIP. I had presumed that would be the way it would work. In any event, it is a rather insignificant difference.

Senator NELSON. I know it is a small difference, but would not that be the principle applied?

Mr. VANDERLIP. I think it would.

Senator BRISTOW. Let me get that clearly in my mind. I do not know whether I comprehend that fully. Take Senator Reed's illustration: What is the value of that paper? They are both good, one is as good as the other, but the Kansas City paper bears 6 per cent and the New York paper 4. It is taken to the Federal bank for discount. What is to be the discount value of the two papers? Is the one drawing 6 to be more than the one drawing 4?

Mr. VANDERLIP. If those were discounted notes they are both worth, at the date of maturity, \$1,000 each, if they are \$1,000 notes. The man who has discounted them got less than \$1,000—the one by 4 per cent the other by 6. That is where the variation came in. The \$1,000 note that was discounted at 6 per cent produced less than the \$1,000 note discounted at 4 per cent.

Senator BRISTOW. But they are not discounted. In fact, that note bears 4 per cent, one of them does, and the other bears 6. Out in our country where we take six months' paper, why it may run three months, and in New York it may be a 90-day note.

Mr. VANDERLIP. Let us suppose the New York bank has these two pieces of paper and goes to a central bank and borrows at 5 per cent. What it will really do will be to convert this 6 per cent note to a 5 per cent basis and the 4 per cent note to a 5 per cent basis. The central bank will take those notes on a 5 per cent basis. The 4 per cent it would take a little under par and the 5 per cent a little over par.

Senator NELSON. That is exactly the way it will work.

Senator BRISTOW. Yes; I can see that. I can see no objection to that system, provided that the value of the note given it by the increased rate the interest is taken into consideration.

Mr. VANDERLIP. It certainly would be.

Senator BRISTOW. Otherwise it would be very unjust to a certain part of the country.

Mr. VANDERLIP. It would be taken into consideration.

Senator HITCHCOCK. That raises another question, Mr. Vanderlip. You said, and I entirely agree with you, you should not only include 90-day paper, as stated in the bill, but out West and down in the South 6 months and perhaps 9 months paper, which is commercial paper to the same extent, growing out of certain transactions. But up in those countries where 6 and 9 months paper is given the interest is not deducted in advance, and how are these notes to be discounted under those circumstances? The interest is generally payable at maturity.

Mr. VANDERLIP. Just as I say. If it is a nine-months note at 6 per cent, and you are disposing of it on a 5 per cent basis, you will get more than the face of the note for it.

Senator REED. What you mean, in a word, is this, that the bank will do just what your bank will do. If the interest has been paid, it will take that out of the note. If the note is still drawing interest, it will take that fact into consideration and arrive at the actual value.

Mr. VANDERLIP. And that value will be either above the face or below it, as the basis upon which it is being discounted varies from the rate the note bears.

Senator HITCHCOCK. Then some of the notes taken in that way may have the interest already paid, and on the other notes the interest may be payable at maturity.

Mr. VANDERLIP. Yes. Now, on page 22, section E, it is provided that the Federal board may reclassify—

Senator HITCHCOCK (interposing). You did not say anything about those reserve requirements. You are passing that over. Do you think the Federal board should have the power of suspending the reserve requirements?

Mr. VANDERLIP. I passed that over because I am doubtful; I have a feeling it should not. But I have heard some arguments lately in favor of it. The balance of the opinion, in my mind, is that it should not have that power, but I see some rather impressive reasons why it should have it.

Senator HITCHCOCK. This means they have the power not only to suspend the reserve requirements as far as the 12 banks are concerned, but to suspend the reserve requirements of the national banks and even the reserve requirements of State banks.

Mr. VANDERLIP. Yes.

Senator BRISTOW. Unless I am interrupting Senator Hitchcock, what is the use of any such power as that, when we are supposed to have a system that can bring relief in any kind of an emergency?

Mr. VANDERLIP. I do not believe it is necessary. Of course it is not necessary now, as bad as our present system is. But in reality we sometimes disobey the law now. We do invade our reserves. It would be wiser, perhaps, to have somebody with power to suspend that reserve requirement rather than have all of the banks more or less break the law. But even that I am not sure of. On the whole, I should be opposed to that, but I can see some reasons on the other side.

Senator BRISTOW. And are you not providing, or endeavoring to provide, at least, facilities here by which it is never going to be necessary for you to break the law?

Mr. VANDERLIP. It do not think it would be necessary. I think it is positively unnecessary to have this provision on that score alone.

Senator WEEKS. Do you recall the arguments which you have referred to which were in favor of this provision, why it should be in the bill—by whom they were made?

Mr. VANDERLIP. They rather take this form, that a reserve that is fixed by law is simply an irreducible amount of money. It is of no value at all for paying the depositors, and you have no leeway whatever between the minimum that you are probably going to loan out and the legal point that you must not go below—that the suspension of reserve requirements under pressure would permit you to pay out a certain amount of your reserve to relieve the situation around a bad corner. I do not think that is very much of an argument, and, perhaps, I have not presented it very well.

Senator WEEKS. Do you agree that under this system, if it is established, or the system that is contemplated, we can practically eliminate the amount of reserve which would be required of banks, permitting them to follow, practically, the policy that is followed in European banks?

Mr. VANDERLIP. In the end, I think you could. There ought really to be no legal-reserve requirement, but in this country we have grown so accustomed to it I think it is dangerous to abandon it all at once.

Senator WEEKS. That is, in the course of 5, 10, or 15 years we can greatly change the reserve requirements of this law?

Mr. VANDERLIP. I think so, undoubtedly.

Senator HITCHCOCK. What would be the effect on the public mind if the reserve board should announce the suspension of the requirements of the reserve banks when they come down to 33½ per cent?

Mr. VANDERLIP. That depends upon what the condition of the public mind was before they announced that. I could imagine circumstances under which it would produce a feeling of relief to the public mind.

Senator HITCHCOCK. The whole world has reached the conclusion that central banks should have a larger reserve than 33½ per cent. All the central banks of Europe have a much larger reserve, and this bill has adopted a smaller one than at present need be. Now, take a condition where they have reached the limit. The reserve board lets down the bars altogether. What would be the effect on the public mind?

Mr. VANDERLIP. It would have to be a very serious situation when they did that, and, generally speaking, whenever they did do it confidence in the whole system would be pretty well destroyed and would have been destroyed when they did it.

Senator HITCHCOCK. It would tend to confirm the fear and really aggravate it?

Mr. VANDERLIP. Yes.

Senator REED. What was the effect in 1907, when the Comptroller of the Currency notified the banks they need not keep any reserve against the Government deposits?



Mr. VANDERLIP. It did not have any effect, because the banks thought they knew at what points they ought to keep reserves, and they kept them there.

Senator REED. There never was a proclamation of the right to do so?

Mr. VANDERLIP. There was a proclamation of the right that they need not keep reserves against the Government deposits. Of course the comptroller has no more right than you to change the law.

Senator REED. No; I understand.

Mr. VANDERLIP. His proclamation was that they need not keep reserves against the Government deposits.

Senator NELSON. They need not keep that money over their deposits?

Mr. VANDERLIP. No.

Senator REED. That did not affect the public mind at that time?

Mr. VANDERLIP. No; it was rather a technical matter that the public mind did not grasp.

Senator HITCHCOCK. Was there any reason to keep a reserve against them?

Mr. VANDERLIP. There is the same reason, so far as the Government is concerned, but no reason so far as the bank is concerned. The reserve is to help pay deposits, and the fact that you have secured the deposits does not change the reserve.

Senator NELSON. It does not relieve their paying?

Mr. VANDERLIP. No, sir.

The CHAIRMAN. Did not the suspension of the reserve in the English system in 1847, 1857, and 1866 abate the panic on those three great occasions?

Mr. VANDERLIP. Undoubtedly. I presume that the drawing of some parallel between them and the present conditions was what led to putting this in, but I doubt the wisdom of the parallel. I would rather say not.

Senator REED. Do you think really it is a good thing to have a reserve you do not use, that you do not invade?

Mr. VANDERLIP. I think it would be a better thing to have no regular limits on your reserve at all, but I believe it would be dangerous now. We have grown too accustomed to a regular limit to remove that altogether.

Senator NELSON. And, besides, Mr. Vanderlip, under this new system, without a reserve requirement you would not have capital enough for these banks?

Mr. VANDERLIP. No.

Senator NELSON. That is just part of their capital that comes from this reserve provision?

Senator POMERENE. The reserves here are 12 and 18 per cent. What would you say as to the wisdom of providing that this board might, by unanimous vote, reduce or raise those reserves?

Mr. VANDERLIP. By no means. I would not give to that board the discretion to change the whole basis of the banking system. We would not know where we stood at all.

Senator POMERENE. The thought is these figures are fixed and, to a certain extent, it is problematical as to whether they are fixed at

the proper point. Now, that being so, if the experience of future years should indicate that the reserves were too high or too low, for that matter, then they might be raised or lowered?

Mr. VANDERLIP. I would rather let the board make representations to Congress and have Congress handle it.

Senator NELSON. I want to call your attention to an ambiguity in this paragraph, to suspend for a period not exceeding 30 days, and to renew, and so forth, any and every reserve requirement specified in this act. Now, there are two distinct reserve requirements: One is the requirement of the member banks, and then there is the other reserve requirement of the regional banks of 33 per cent. So that this would cover both classes of reserves, both the reserves for member banks and the reserves required of the regional banks, the issuing bank. In the case of the regional bank it is 33 per cent, and in the case of these others, so far as the reserve is concerned, it would be 5 per cent at the end of 36 months. So you see this would cover both.

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. Yes; or the gold reserve—that the bill does not require but probably will—it may change that.

Senator NELSON. Of course. It is ambiguous. It would cover both classes of reserve.

Senator WEEKS. You do not keep reserves on Government deposits now?

Mr. VANDERLIP. Yes, we do.

Senator WEEKS. Are you required to by order of the comptroller?

Mr. VANDERLIP. No.

Senator WEEKS. That order has never been rescinded, that they need not keep reserves against Government deposits?

Mr. VANDERLIP. I think not.

Senator WEEKS. Then, the comptroller's order was a permanent one, rather than a temporary one to meet that contingency?

Mr. VANDERLIP. I believe so.

Senator NELSON. Further, in that connection I call your attention—commencing on line 21, it is provided that “it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified.” etc. What do you think about that provision?

Mr. VANDERLIP. I believe that is a correct theory of the control of the situation—the taxing of deficient reserves, rather than the taxing of notes.

Senator NELSON. And you would apply that to the 33 per cent required, and not to the reserves that member banks put in?

Mr. VANDERLIP. Oh, yes. The member banks I would leave alone.

Senator NELSON. That is what I mean.

Senator BRISTOW. This puts a tax on the deficiency of the gold reserve in the Federal reserve banks?

Mr. VANDERLIP. Yes; the reserve carried by the Federal reserve banks.

Senator REED. What would be the use of levying a tax on that? If you had a system here that was paying, say, 5 per cent to member banks on their capital investments and the balance of it went to the Government, and then there was a profit, and we levy a tax on going below 33 per cent gold reserve, we collect it from our own pockets.

**Mr. VANDERLIP.** If you endanger the 5 per cent dividends, you would find the management of those banks very keen.

**Senator REED.** Yes; if you endangered the 5 per cent dividends. When you reach that point, and up to the time you reach that point, it would be taking money out of your own pockets.

**Mr. VANDERLIP.** Yes.

**Senator REED.** Would it not be well, in that case, if it went below, to collect that tax out of the 5 per cent—commencing there?

**Mr. VANDERLIP.** Possibly. That is an ingenious suggestion. Section E, on page 22, gives the board power "to add to the number of cities classified as reserve and central reserve cities under existing law," etc. I can not see what the distinction between reserve and central reserve cities will be under this act. None of the banks hold reserve deposits, and I see no force in such a distinction. Then it goes on further and says that they have the power to designate the banks therein situated as country banks, at its discretion. That is, they could go into a central reserve city and designate a particular bank as a country bank, as I read this. That is certainly a power they never should have.

**Senator HITCHCOCK.** If they made it optional for the national banks to come into the system and a number stayed out it might be necessary in central reserve cities?

**Mr. VANDERLIP.** Those that stayed out would have to surrender their charters.

**Senator HITCHCOCK.** I say, if it is made optional.

**Mr. VANDERLIP.** Oh, yes; if it is made optional, that is true. But it is not made optional, and if you made it optional you never would get anywhere with the system. That is the unfortunate part of it.

**Senator O'GORMAN.** What is that last statement?

**Mr. VANDERLIP.** If you made it optional whether or not a bank should come into the system you would never get the system started.

**Senator O'GORMAN.** What is your judgment, as a citizen, not as a banker, as to whether it ought to be optional or compulsory?

**Mr. VANDERLIP.** It would be vastly better to have it optional, if there were any hope of making it work. Looking at it as a citizen, and not as a banker, I see that bankers are very conservative and unimaginative people. They would like to wait and see. You give them permission to join when they choose and they will all wait for the other man to start it. They will wait to see how it works.

**Senator O'GORMAN.** Suppose it was compulsory, what do you think would happen?

**Mr. VANDERLIP.** I fear that a great number of the national banks would be converted into State banks.

**Senator O'GORMAN.** About what percentage of the national banks do you think may surrender their charters?

**Mr. VANDERLIP.** That is very difficult to say until the law is in completed form. I think many of the small banks would, and I can see very distinct advantages in the large banks surrendering their national charters, taking out State charters, and then joining the system as a State bank.

**Senator O'GORMAN.** That is upon the assumption that this bill would be enacted as it is now?

**Mr. VANDERLIP.** Yes, sir.

Senator O'GORMAN. I suppose I do not exaggerate the situation when I state that there is no member of this committee, no single member, who favors enacting this bill as it stands to-day.

Mr. VANDERLIP. I have directed my remarks to the bill as it stands.

Senator WEEKS. What do you think of the proposition which has been made to the committee, to reduce the period from one year to three months during which the national banks should have the privilege of deciding whether they are coming in or forfeit their charters?

Mr. VANDERLIP. I should say that would be a very short time.

You found the national bankers very slow to comprehend the provisions of the bill, I understand, from many of them who have been before you, and I think the national bankers as a rule would not comprehend the thing sufficiently to arrive at an intelligent decision.

Senator WEEKS. In your opinion what would be the effect of shortening the time; would it force more out or force more in?

Mr. VANDERLIP. That is hard to say; I do not know.

Senator WEEKS. You think it would not be wise or just?

Mr. VANDERLIP. It would not be just. They ought to have time in which to digest this thing.

The CHAIRMAN. They ought to have time to read it?

Mr. VANDERLIP. Yes.

The CHAIRMAN. They have not read it yet?

Mr. VANDERLIP. So I understand.

Senator WEEKS. Your fear that the banks will come in unless it is made compulsory is justified by the experience under the Aldrich-Vreeland bill? The currency associations were not formed until the Treasury Department brought pressure to bear, and as a result of that pressure the associations were formed?

Mr. VANDERLIP. Yes.

Senator WEEKS. There was no proper reason why they should not have been formed, but there was no initiative about it?

Mr. VANDERLIP. Yes.

Senator NELSON. What would you think of making it optional with the small country banks having a capital, say, of \$100,000 or less—making it optional with them? Would that mar the plan?

Mr. VANDERLIP. If you reduce that to \$50,000 or less, I do not know that it would seriously mar the plan. But just where would these banks that would not come in keep their reserves?

Senator NELSON. I do not know. You would have to have some plan for that. You would have to make—

Mr. VANDERLIP (interposing). The very small banks are not essential to the working of this plan.

Senator NELSON. The \$25,000 bank?

Mr. VANDERLIP. Yes; and even the \$50,000 banks.

Senator NELSON. We have about 2,000 of them, I think.

Mr. VANDERLIP. We have more than that, I believe.

Senator HITCHCOCK. Suppose you provided that a small bank which had subscribed no capital might have the right to discount paper at a regional reserve bank, provided it has kept its reserve there and has otherwise complied with the law?

Mr. VANDERLIP. That would be, perhaps, unfair to the banks which had been compelled to subscribe capital, but it would be workable.

Senator WEEKS. In that event you would be conferring a benefit upon the country banks without exacting any return?

Mr. VANDERLIP. Exactly.

Senator REED. Mr. Vanderlip, suppose the law required these banks engaged in interstate commerce to keep a certain reserve in these reserve banks and did not require any bank to put up any part of its capital stock; what do you think would be the result of that?

Senator O'GORMAN. Where would you get the capital?

Senator REED. They would have reserves there mighty quick. As far as capital is concerned, to-day capital is almost a mere bagatelle. We are talking about compelling people to come into this system. The Government does have one power that is tremendous, and that is its control over interstate commerce. Suppose you established a system and simply said that any institution that engaged in interstate commerce in the banking business must put a certain amount of its deposits in these central banks to be established by the Government for the purpose of rendering secure our financial system.

Mr. VANDERLIP. Have not the courts decided that banking is not interstate commerce?

Senator REED. I do not know. I am asking you that, as the thought occurred to me here. It was not matured.

Mr. VANDERLIP. I am not a lawyer, but I think that is true.

Senator REED. My opinion is that whenever notes go from one place to another, or checks, that that is interstate commerce. Senator Nelson would know, I think.

Senator HOLLIS. They could compel them in the way of—

Senator NELSON (interposing). I think the courts have held that insurance policies are not interstate commerce.

Senator REED. I know they have held that.

Senator NELSON. Insurance policies written in one State and payable in another.

Senator BRISTOW. Mr. Vanderlip, do you not think that any system which we may have devised, which would have to resort to such drastic measures as that, would not last very long, and would soon be superseded by another?

Mr. VANDERLIP. I think it would be very indefinite.

Senator BRISTOW. Do you think such a system would last very long?

Mr. VANDERLIP. It would be started under very poor auspices, at least. I should object to the provision—

Senator REED (interposing). We are asserting here now our rights, at least our desire, to control the banking system of this country within certain limitations, and we are talking about saying to all the national banks that have been organized and had their charters for 20 years, that they must come into this system or they must go out of the national-banking system. That is tolerably radical, but I am not saying the other thing could be done. That is the thought which occurs to me here.

Senator NELSON. There is a grave question, a very serious question, where a bank has a charter that has run for 10 years, say, a charter which they took out for 20 years, and the bank has not

violated any law; there is a grave question whether you can have that charter forfeited simply because they will not go up to this new trough and drink water out of it.

Mr. VANDERLIP. I object to the power given to the Federal reserve board, as stated at the bottom of page 22, to perform the duties, functions, or services specified or implied in this act. That word "implied" might be made to cover almost anything we have ever thought of.

The CHAIRMAN. What page?

Mr. VANDERLIP. Page 22, the last line on the page. I will take up now the Federal advisory council, as referred to on page 23.

Senator BRISTOW. What do you suppose that means, in that last paragraph on page 22, "to perform the duties, functions, or services, specified or implied, in this act"?

Mr. VANDERLIP. I suppose it means that the Federal reserve board would be able to demonstrate that they had almost any powers they were of a mind to conceive.

Senator POMERENE. That would be given a legal significance, meaning such powers as are legally implied for the purpose of carrying out the provisions of the act.

Mr. VANDERLIP. This is a pretty broad, blanket power, I believe. I do not like it.

Taking up now the question of the Federal advisory council, if bankers are not to be permitted to have any representation on the Federal board, then I should emphasize in every way possible the importance of this Federal advisory council. For instance, it is provided here that they shall receive no compensation for their services. I can see no reason whatever for that. Why should they not receive compensation if the banks choose to give it to them?

It is provided that they will meet four times a year or oftener if called together by the Federal board not if called together by themselves. I think if you make a Federal board that is composed entirely of Government representatives and permit the members of this advisory council to sit at all the deliberations of the board, to take part in the discussions and debates—not to have any votes, but to give the Federal board the advantage of close, intimate touch in the discussion of all questions with the advisory council—it will be a very good thing.

Senator WEEKS. Should its hearings be public?

Mr. VANDERLIP. Not necessarily. They are not exactly hearings; they are general discussions which the Federal board may have; I mean, they are official meetings. I would empower this council to call for any sort of information. I would give them the power to call for any sort of information that the Federal board itself might call for. I would put them on a parity with the Federal board—almost make them a part of it—but give them no vote. Give the Federal board the advantage of that relationship.

Senator WEEKS. What do you think of the value of an advisory board—a volunteer board, practically so—which has no ultimate responsibility?

Mr. VANDERLIP. I think it of very little value as this section is drawn. I think it could be made of considerable value.

Senator POMERENE. Without any provision of that kind, do you not feel that if there is any matter that comes up which seriously

affected the banks, that they would have their representatives wait upon this board for the purpose of presenting their views?

Mr. VANDERLIP. It is very different having a representative waiting on the board from having a representative with full rights sit at the table where the meeting is going on.

Senator POMERENE. That is true if they are to sit and take part in the final deliberation. They would be like Delegates in the House of Representatives.

Senator NELSON. Delegates from the Territories, without a vote.

The CHAIRMAN. Would you give them unlimited debate? [Laughter.]

Mr. VANDERLIP. No; I think there should be a cloture rule. [Laughter.]

I now come to a very important and somewhat technical matter. Section 14 provides that the Federal reserve banks may receive for collection all sorts of checks and drafts drawn upon solvent banks.

The national-bank act at present says a reserve shall be kept upon the deposits. There is no definition there of gross deposits and net deposits, but the distinction which has grown up not by law, but by regulation, is very important. Gross deposits are the total deposits to the credit of the depositors in the bank. Net deposits are the deposits after certain deductions, among which are all items that are in the process of collection. For instance, if a bank in New York has \$10,000,000 of deposits, and a bank in Pittsburgh deposits a million-dollar check drawn on a Chicago bank, the gross deposits of the New York bank would be \$11,000,000, but in figuring the reserves we would deduct that \$1,000,000 check until it had been collected, and we would figure reserve on \$10,000,000, which is the amount of net deposits.

Under the present practice the reserve of the Pittsburgh bank is increased a million dollars, although the New York bank is not keeping any reserve against that deposit, and that constitutes a reserve for the Pittsburgh bank until it collects the money.

There is nothing said in this bill about gross deposits and net deposits. If reserves were figured on gross deposits, and these Federal reserve banks undertook all the collection business of the country, as they certainly will under these provisions, there would be a mass of deposits with them which would, in fact, only be items in process of collection but against which they would have to keep reserves. That mass of items in process of collection would be so great that it would use up a large part of the reserve bank's available funds to keep a reserve against it. I think the reserve banks should be permitted to deduct from their deposits items in process of collection, just the same as national banks now deduct in that way, and it would be more nearly correct and not permit the depositing bank to count uncollected items in its reserve until they are collected, although at the present time the depositing bank does count in its reserve all deposits created by the uncollected items, although the bank receiving them on deposit keeps no reserve against this amount but deducts it from gross deposits.

This point is very important, because if reserves were to be figured on the gross deposits of Federal reserve banks it would swamp the Federal reserve bank.

Senator HITCHCOCK. On the other hand, is it not permissible under this bill for the Federal reserve bank to charge to a member bank having deposits checks when they are received in the Federal reserve bank?

Mr. VANDERLIP. It must, without charge, credit at par checks drawn by member banks on it, checks drawn on member banks that are members of its region, or checks drawn by member banks of any other region upon the central reserve bank of that region. Those must all be credited at par. It can charge for checks drawn on member banks of other regions, checks drawn by member banks upon member banks of any other region, or checks drawn upon any solvent bank. The charge for the collection does not cure the thing. If these are counted as deposits they have to keep a reserve against them; it will consume a large part of the reserve if they have to keep a reserve against these uncollected items.

Senator HITCHCOCK. I think that while it is true that checks would come in constantly, in large volume, which would go to the credit of a member bank, yet the same member bank would be charged with checks that came in the same mail. That would reduce the deposits?

Mr. VANDERLIP. Certainly it will. Just as fast as collection is made of the deposit, the deposit is reduced.

Senator HITCHCOCK. No; I think you misunderstood me. The checks coming into the reserve bank, drawn on a member bank, when cashed by the reserve bank would be charged to the account of the member bank.

Mr. VANDERLIP. That is true, but what about checks coming in drawn by members on other banks? Suppose there is deposited by a New York bank in the central reserve bank in New York a check drawn by a San Francisco bank on another member of the San Francisco Federal reserve bank? That is going to take some time to collect.

Senator HITCHCOCK. That would be a different situation?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. As far as the member banks of the central reserve banks are concerned—

Mr. VANDERLIP (interposing). They ought to clear every day.

Senator HITCHCOCK. And it ought to be counted in their deposits?

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. It ought to be counted in the reserve in the deposit also.

Senator WEEKS. It will be necessary to give prompt notice to the banks that certain charges have been made against its account, otherwise it might overdraw very frequently?

Mr. VANDERLIP. Exactly. Section 15 is translated in different ways by different people. I have supposed that it meant that the Federal reserve bank could go into the market and buy paper that had the indorsement of a member bank somewhere in the system. I have been told that is not what it means; that it can go into the market and buy any paper.

Senator NELSON. Anywhere.

Mr. VANDERLIP. Anybody's paper.

Senator O'GORMAN. That is for the purpose of regulating the discount rate?

Mr. VANDERLIP. Yes; to flatten rates or to accumulate bills to sell at a time of threatened gold exports.



Senator O'GORMAN. Can you suggest any better way of regulating the discount rate?

Mr. VANDERLIP. I suggested this morning, at some length, the idea of converting part of the 2 per cent bonds into one-year Treasury notes, which should be renewed, as often as they matured, by the Federal reserve banks that would hold them. They would have in their possession 200 or 300 million dollars' worth of such notes that they could offer in the market whenever they wanted to control the rate and that could be used to great advantage in the gold situation.

Senator O'GORMAN. Just as the Government has done in the past in that respect.

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. Why should not the Government do that direct? It seems to me that is a very cumbersome way to secure gold.

Mr. VANDERLIP. How would the Government secure gold?

Senator BRISTOW. Sell bonds direct.

Mr. VANDERLIP. The Government would have no machinery for that. It would not want to sell bonds. Of course it might sell short-time notes, but it is not the special concern of the Government whether gold is exported at a certain time or not. It is of concern to the banking situation, and not a concern of such moment that the Government ought to take action. These bankers, however, ought to have the power so that they could in some measure check the outflow of gold. You can not check it to any great extent; you can only dam it up a little; you can hold it up for a while, possibly until a crop movement brings you credits so you do not have to have any gold movement. That is only a slight, but it is a very important, power.

Senator WEEKS. If the reserve banks were given the power to invest in foreign bills and made a practice of doing it to a considerable extent, could not they regulate the flow of gold by purchasing or selling foreign bills?

Mr. VANDERLIP. That is provided for in here. It is extremely important, but of the 12 regional banks that would probably only be done by the one in New York. There might be two or three which would engage in the purchase and sale of foreign bills, but it is rather doubtful if banks operated by people who were not familiar with foreign exchange would trade in foreign bills.

Senator WEEKS. That is still another argument in favor of reducing the number of banks?

Mr. VANDERLIP. Yes; they are almost numberless.

Senator SHAFROTH. Mr. Vanderlip, I want to ask you about the raising of the discount rate. I have not gotten it clear in my mind whether this would be to the advantage of the people to do that or not. Of course, there is a certain amount of benefit that comes to a nation in getting gold into it, but if you raise the discount rate and make the people pay higher interest for accommodations it is a dilemma that has two features to it, one a bad feature and one a good feature.

Mr. VANDERLIP. You may be rendering a great service to the people by checking too great expansion and free loaning.

Senator SHAFROTH. You mean by the increased discount rate?

Mr. VANDERLIP. By the increased discount rate.

Senator SHAFROTH. But the man who wants money never goes there.

Mr. VANDERLIP. Therefore he is not the correct man——

Senator SHAFROTH (interposing). You say the rate can not be controlled absolutely, anyway?

Mr. VANDERLIP. Oh, no; only slightly.

Senator SHAFROTH. I agree with you that whatever is absolutely needed in foreign countries is going to get there if they willing to bid for it more than we are, and for that reason I do not see but what there is almost as much loss to the people by reason of attempting to regulate the discount rate as there is benefit

Senator NELSON. Mr. Vanderlip, I want to call your attention to line 6 on page 27. What do you understand by the term "prime bankers' bills," as distinguished from bills of exchange, the words below? What is a prime bankers' bill?

Mr. VANDERLIP. A prime bankers' bill has the indorsement of a banker.

Senator NELSON. You mean acceptance?

Mr. VANDERLIP. Acceptance or indorsement.

Senator NELSON. And a bill of exchange is a bill that has not been accepted yet?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. Now, would this include what I call finance bills, as distinguished from commercial bills? You know the difference?

Mr. VANDERLIP. A finance bill is drawn against securities, not drawn against commercial transactions.

Senator NELSON. But it has an acceptor?

Mr. VANDERLIP. Oh, yes; it has an acceptor, just as a commercial bill.

Senator NELSON. Would this include a finance bill as well as a commercial bill?

Mr. VANDERLIP. I should think not.

Senator NELSON. You do not think so?

Mr. VANDERLIP. No, sir.

Senator NELSON. It would not do to include that, would it?

Mr. VANDERLIP. I think not.

Senator BRISTOW. Do you think that section 15 offers the regional banks an opportunity to go out and transact a general banking business?

Mr. VANDERLIP. I do not know, but I am very sure it ought to be made perfectly clear whether or not it is permitted to do so.

Senator BRISTOW. What do you think; should it or should it not?

Mr. VANDERLIP. I think it should not be. Of course, it has to have something to make its discount rate effective. If you do not adopt this one-year Treasury note plan, I am not certain but what it is necessary for the bank to do this open-market business to make its rate effective. It must have some power to do that. It is obnoxious to be creating an institution with our own capital which is going into a market to compete with us.

Senator O'GORMAN. You will observe by the language of section 15 that it is not designed that that power will be used always. It is only to be used in the contingencies which will be governed by the rules and regulations of the Federal reserve board. Can you not confide the exercise of that power to the judgment and discretion of the Federal reserve board?

Mr. VANDERLIP. We would first confide it to our own representatives and directors in the Federal reserve bank, and I should say we

would be willing to confide it to them rather more than to the Federal reserve board. We create a majority of the directors of the Federal reserve bank, and we ought to be able to control the competition of the bank.

Senator O'GORMAN. Suppose a provision substantially similar to the first paragraph of section 15 were in this act, you would advise the elimination of this reference to the reserve board establishing rules and regulations?

Mr. VANDERLIP. I do not see any reason why it should establish rules and regulations.

Senator O'GORMAN. Except that it is in keeping with the general tenor of the entire bill that they will exercise a supervision and control over all reserve banks.

Mr. VANDERLIP. I have not especially found fault with the powers given to the Federal reserve board there. I have merely voiced the objection that is very common among bankers, to the Federal reserve bank competing with existing banks. The feeling on the part of many bankers is that the Federal reserve board should never buy any paper that did not have the indorsement of some member bank of the system. Then you are not in direct competition with the banks.

To come to the note issue, I believe it is fundamentally wrong to have the Government issue the notes. I think they should be an obligation of the Federal reserve banks. While I am perfectly clear that it is improper and unscientific, I will admit that I believe it will work in this form. There is danger that this guaranty of the Government will sometimes embarrass the Government. That is the chief practical objection to the working of this thing. It is unsound in theory for the Government to issue these notes, but I think the only really serious trouble that could ever come out of it would be that the Government might be embarrassed in carrying out the responsibilities here imposed upon it.

Senator POMERENE. Under what conditions have you in mind?

Mr. VANDERLIP. Under conditions where the Federal banks are down to the limit of their reserves, a large amount of notes coming in for redemption because of some fear of the inability of the banks to redeem them, and the fact that there is not gold enough to cover the notes, the only cover for them being a loan upon commercial paper.

Senator HITCHCOCK. Five per cent?

Mr. VANDERLIP. They have 5 per cent reserve deposited with the Government. That is an insufficient reserve.

Senator POMERENE. If these are in fact Government notes, it would reduce to a minimum such conditions as you have described?

Mr. VANDERLIP. I think so.

Senator POMERENE. Assume for the time being that this bill was so changed as to make them obligations of the member bank instead of the Government; it is true the provisions of this bill are sufficient for the protection of those notes, so as to insure their redemption?

Mr. VANDERLIP. Probably. I presume you meant the obligation of the Federal reserve bank instead of a member bank.

Senator POMERENE. The regional reserve bank.

Mr. VANDERLIP. I can imagine, with a large number of regional banks, instances of mismanagement—perhaps the exercise of too

optimistic views by the board of some bank—so that it would be in a position of difficulty in redeeming these notes. The community where these notes were circulated, even though it knew the bank that issued them was rather weak, would not be concerned with that bank at all if the Government were guaranteeing the notes. I think the community ought to be concerned if the bank issuing the notes becomes weak enough so as to raise some question as to its ability to redeem these notes promptly. I certainly can imagine a condition where one of these banks would not be able to redeem these notes promptly. It is very probable. The risk of the guaranty is very small, but if it is nothing there is need for it. If there is any risk, the Government ought not to assume it. There is no more reason why the Government should be liable for notes than for deposits.

Senator POMERENE. You have here the security of the reserves, the double liability, the capital of the bank, and the fact that there is a first lien upon the assets of the bank. That ought to make it pretty secure.

Mr. VANDERLIP. It ought to make it quite secure enough for the note holder. It makes it absolutely secure, I believe. Therefore, why add the guaranty of the Government to it?

Senator POMERENE. If it is absolutely secure, what risk is the Government taking?

Mr. VANDERLIP. It is not taking any risk, if it is absolutely secure. It is probably secure, and, therefore, a guaranty is wholly unnecessary.

Senator WEEKS. Suppose we got into a serious war and it were necessary for the Government to issue its Treasury notes, as it did in the sixties, do you not think that having these notes at that time with practically a Government guaranty, would be an important consideration?

Mr. VANDERLIP. Very important; yes; important to the Government in that it would make it difficult for them to issue notes as they did in the sixties with a guaranty. It would be much better for the Government to let the bank notes stand by themselves.

Senator SHAFROTH. Would it be any worse than to have bonds issued to carry on a war?

Mr. VANDERLIP. Very much worse; inexpressibly worse.

Senator SHAFROTH. You mean because the rate at which they would buy the bonds would be above par?

Mr. VANDERLIP. No; I mean because an emission of fiat money entails for the country that issues it instead of selling bonds to pay the expenses of the war a burden of rising prices and increased expenses.

Senator SHAFROTH. That depends on whether they can maintain the gold reserve.

Senator REED. Mr. Vanderlip, you say that if this currency is secure, it needs no Government back of it. If it is not secure, it should not have the Government back of it. Now, is not one of the great elements in floating any currency the confidence that the people have in the ultimate redemption of that currency?

Mr. VANDERLIP. Yes, sir.

Senator REED. And just in proportion as you increase that confidence you decrease the likelihood of the currency being attacked or raided or beaten down in the market. Therefore, if the Government of the United States puts its indorsement upon all currency

that is issued, does it not add to that currency a great element of stability and value?

Mr. VANDERLIP. I do not believe in this case that it does add very much. And I do not believe that it is desirable to add any. I believe that these banks ought to be under the compulsion of so conducting themselves that the public would have absolute confidence in this currency.

Senator REED. Do you not think that in establishing any financial system that the confidence of the public is, after all, one of the very great elements?

Mr. VANDERLIP. Yes, sir.

Senator REED. Now, do you not believe, Mr. Vanderlip, that taking the average citizen of the United States he regards anything that the Government stands back of as the safest and best security on earth?

Mr. VANDERLIP. Yes.

Senator REED. Well, if that is true, then why not give to this system that added stability, particularly when you say it can be done without really jeopardizing the Government?

Mr. VANDERLIP. I say it can probably be done without jeopardizing the Government, but if it ever did jeopardize the Government it would be a very serious matter.

Senator REED. Why, certainly. And if we are going to enact a bill here that is so bad that the structure will fall so heavily as to bear down the Government or greatly injure the Government, then we are embarking upon a most hazardous undertaking.

Mr. VANDERLIP. I do not think you are going to do that. And I do not think this bill, in all human probability, if enacted, would ever involve the Government; but the principle of having the Government issue these notes is wrong. The guaranty of the Government is an unnecessary and illogical thing. The notes will float perfectly well without any guaranty.

Now, practically, I tell you my opinion is that the thing will work. It is wrong, it is unscientific, it is not a correct way of approaching this subject, but I think it will work, and the strong probability is that the Nation's credit will never become involved. But I can readily conceive of circumstances under which it will become involved, and I think you would be doing the wrong thing to issue the notes in this form.

Senator NELSON. One question there, Mr. Vanderlip. I think, as a matter of general principle, you are right, but don't you think that in time of financial stress and disturbance, where the holders of these bills knew that the Government was back of them, there would be a less disposition among them to make a run and try to obtain gold for their paper?

Mr. VANDERLIP. There might be.

Senator NELSON. Would there not be less likelihood of a rush to the bank or the Government vaults, saying, "I want gold for this paper," if the holders knew the Government was back of it?

Mr. VANDERLIP. If they were to rush to the vaults and get gold, they ought to rush to the vaults and get gold. That is the position this bank ought to keep itself in.

Senator NELSON. No; I mean would not the people when they got frightened, as they were in 1907, when they got scared and ran for their deposits—suppose they got scared in the same manner about

this new currency: wouldn't they be less likely to make a run for the gold if the Government were back of the bills than if it were simply a bank?

Mr. VANDERLIP. They would be somewhat less likely to. On the other hand, the banks would be much less likely to get in a position that would cause such a run if the whole responsibility was upon them.

Senator HITCHCOCK. Mr. Vanderlip, the very fact that men sit around a table seriously discussing the safety of these notes seems to me a reason why we should not issue any more of them than necessary for the purpose of elasticity, and leave that bank currency which we already have and which is beyond any question.

Mr. VANDERLIP. It is beyond any question of security, but it has disabilities that are very serious and which should cause its removal.

Senator HITCHCOCK. Its disabilities relate only to its inelasticity, and that can we provide for in the future.

Senator SHAFROTH. And the fact they can not act as reserves.

Senator REED. We can make them act as reserves in this bill.

Senator POMERENE. Mr. Vanderlip, I do not share your views as to the risks to be run by the Government issuing these notes, but I do want to make them as absolutely secure as it is possible to make them—if there is any thing more secure than absolutely secure. I have this thought in mind: You suggested a few moments ago that the earnings of the regional reserve bank over and above the dividend should be converted into sinking fund for the redemption of the bonds. Now, why would it not be wise to set apart a portion of those earnings as a security or guaranty fund against possible loss upon any of these notes which might be issued by the banks?

Mr. VANDERLIP. That would be rather an unnecessary tying up of gold, because it would be set aside in gold if it were set aside at all.

Senator POMERENE. That is, you think these notes are so absolutely secure it would not be necessary to have that additional guaranty?

Mr. VANDERLIP. I do not believe it would.

Senator NELSON. Would you have these notes redeemable in gold, or gold and lawful money?

Mr. VANDERLIP. I should think they ought to be redeemable in gold. And, by the way, the bill is out of harmony in that respect, in that the banks—

Senator NELSON (interposing). What page are you referring to, please?

Mr. VANDERLIP. On page 32 it is provided that the Federal reserve banks must "maintain on deposit in the Treasury of the United States a sum in gold equal to 5 per cent of such amount of Federal reserve notes," etc. On the preceding page it says, line 20, "shall be exchanged for lawful money out of the 5 per cent redemption fund hereinafter provided."

The redemption fund is provided to be in gold, and the responsibility on the Treasury for redemption out of this fund is stated to be in lawful money. If the words "lawful money" were changed to "gold," in line 20 page 31—

Senator O'CONNOR (interposing). Mr. Vanderlip, the relation is so close that there would be no room to doubt that the expression "lawful money" on page 31 would mean gold, because it has to be taken out of that 5 per cent.

Mr. VANDERLIP. If there is no room to doubt it, then these notes are redeemable in gold at the treasury.

Senator NELSON. Should not the banks who issue this currency provide the necessary gold, and not cast the burden upon the Federal Government in any event?

Mr. VANDERLIP. They are providing it.

Senator NELSON. No; they are not; if you leave the words "lawful money" in it, because the banks can redeem in lawful money, and that throws the burden on the Government. The regional bank redeems in greenbacks, and the man who gets the greenbacks would walk up to the Treasury and demand the gold.

Mr. VANDERLIP. Gold is the proper money for ultimate redemption.

Senator NELSON. And as long as you leave the words "lawful money" in there you ultimately cast the gold burden on the National Government, do you not?

Mr. VANDERLIP. You do, if "lawful money," as Senator O'Gorman says, means gold here.

The CHAIRMAN. It lacks two minutes of half-past 5, the hour at which the committee adjourns, under a previous resolution. The chairman would like to know what the wish of the committee is with regard to meeting to-morrow morning.

Mr. VANDERLIP. I am at the service of the committee.

Senator NELSON. We should like to have you with us.

Senator REED. I move, with a view to expediting the hearings, that we meet at 10 o'clock.

The CHAIRMAN. The Iowa bankers were invited to be here to-morrow.

Senator NELSON. The Senate meets at 12, so we had better meet at 10.

Senator WEEKS. Mr. Dawson of the Iowa bankers is here, and the other two representatives will be here to-morrow, but I am inclined to think they will subordinate their wishes to the desires of the committee about appearing to-morrow or the next day.

Senator BRISTOW. I think it is very important we have Mr. Vanderlip with us to-morrow. I have a lot of questions I want to ask him.

The CHAIRMAN. With that understanding then, the committee when it adjourns, will adjourn till 10 o'clock.

But before the committee adjourns I should like to have it noted on the record that the statement of the Senator from New York, that not a single member of this committee was in favor of this bill in its present form, must not be understood to mean more. Some members of this committee think the bill should be amended; it must not be construed to mean more than that.

Senator WEEKS. Haven't you a large number of amendments yourself?

The CHAIRMAN. I have several amendments myself.

Senator WEEKS. That is what the Senator from New York said as I understood it.

The CHAIRMAN. I thought there might be some other inference drawn from it.

(Thereupon at 5.30 o'clock p. m. the committee proceeded to the consideration of executive business, and afterwards adjourned to meet to-morrow, Thursday, October 9, 1913, at 10 o'clock a. m.)

THURSDAY, OCTOBER 2, 1913.

COMMITTEE ON BANKING AND CURRENCY,  
UNITED STATES SENATE,  
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, and Weeks.

The CHAIRMAN. Gentlemen, the time is so short that I think that even although the members are not present we had better proceed.

Senator NELSON. Yes; Mr. Vanderlip's statements are so important we want to be sure to get them.

The CHAIRMAN. We ought to have them, but we have only two hours until 12 o'clock, when the Senate meets, and this afternoon the Iowa people will be here expecting to be heard. So if we do not let Mr. Vanderlip go ahead we may not get his views at all. There are a number of other gentlemen who have been notified to appear.

Mr. VANDERLIP. Is it your wish that I should proceed?

The CHAIRMAN. Yes.

## STATEMENT OF FRANK A. VANDERLIP.—Resumed.

Mr. VANDERLIP. The provision for a national clearing house, on page 34, I believe can be of great economic value to the country and a great economy in the conduct of the business of the country. I believe it is a feasible thing, always remembering what I said yesterday about figuring net deposits, for if the reserve banks undertake these collections and keep a reserve against the items in process of collection they will be swamped.

The CHAIRMAN. It would be necessary to have the banks, then, keep a margin to cover their own exchanges—the special exchanges on them—would it not? Do you think that would be necessary in addition to the reserve?

Mr. VANDERLIP. I think uncollected exchange items ought not to count in a reserve, and no reserve ought to be carried against them. You ought to be able to reduce your gross deposits by the amount of uncollected exchanges. That rule ought to apply right down the line, and uncollected exchanges ought not to constitute balances that could be counted as reserves.

I think that a full comprehension of the working of this national clearing house would clear up, in the minds of many bankers, some objections that they see to the bill. Bankers are inclined to feel that they will have to keep accounts for exchange purposes, and object to the removal of their reserve balances from central reserve city banks, because they feel that they will still have to keep balances there for exchange purposes. I suspect they do not fully appreciate the function of this national clearing house and the method by which that will supply them with exchange without the necessity of keeping central reserve city balances.

If a Kansas City banker wants to remit to New York it can be done with a check on the central reserve bank of which the Kansas City bank is a member. It does not need to have a balance—

The CHAIRMAN (interposing). You mean the Federal reserve bank, do you not?





with it. Now, it has always seemed to me that that was of material advantage to the country bank, and that he would not want to give up that facility entirely and would necessarily keep more or less money in such banks as he has been doing that kind of business with.

Mr. VANDERLIP. Undoubtedly the country bank will keep deposits with certain city banks for that and other reasons. I believe that it will be the disposition of the average country bank, which seldom borrows, to look to its old-time friend—the bank—that it has been with for a long time as a place to borrow rather than the Federal reserve bank—for a time, at least.

I believe that there will be the advantage that you speak of, an advantage in getting credit information, which will lead to at least one balance with whatever bank the country bank regards highest in the line of obtaining credit information. I do not believe that these balances of country banks will disappear altogether, but, of course, they will be on quite a different basis. At the present time country banks maintain balances for the purpose of having collections made and for the purpose of securing collections to be made by them. That is a very important element in securing bank accounts. For instance, Philadelphia, adopting a practice of collecting free, or at least with very small charges, has accumulated a great amount of country balances, although those balances do not count as reserves, for reserve city banks. Still Philadelphia collects so cheaply as against the charge made in New York, that large balances have accumulated there. Under this arrangement there would be no need of a balance there for the purpose of collection or with the object of securing collections upon which the depositing bank could make a profit. There would still be some reasons for balances, and the one you mention of credit information will be an important one.

Senator WEEKS. I think you place those reasons at a lower estimate than any witness that has been before the committee, and it is something the committee will have to consider, because I think many members of the committee—I have myself—have had in mind that it will be necessary for the country banks to keep considerable deposits in the large centers, or certainly in one large center. And whether it would be desirable to allow any part of that to be used as reserve, at least temporarily until they had acquired new habits and new methods—

Mr. VANDERLIP (interposing). That is permitted temporarily by the bill.

Senator NELSON. Three years. Now, I want to get at one point there. In the part of the bill referring to the reserve on deposits, would the phrase that checks, drafts, bills, etc., in process of collection shall be deducted from the—

Mr. VANDERLIP (interposing). Gross deposits?

Senator NELSON. Gross deposits—something of that kind—

Mr. VANDERLIP (interposing). That will do it.

The clause in regard to refunding bonds I have already discussed pretty fully. I have said that I do not believe it will work in the way that has been anticipated, because the 2 per cent bonds will have greater value in the hands of a banker taking out circulation than the 3 per cent bonds. A suggestion that has occurred to me would be to convert all the twos at once into threes with the circulation

privilege and with a tax of  $1\frac{1}{2}$  per cent instead of one-half per cent. That would leave the result the same to the Government in so far as the bonds were used for circulation purposes, and it would give the banks the option of using the bond for circulation on the same basis that a 2 per cent can be used, or of selling it as a 3 per cent straight investment bond, if there were a market.

There would be a disadvantage to the Government if the banks did sell them and there ceased to be circulation. There would be a compensation for that disadvantage in that, so far as the national-bank notes were reduced, there would be room for the new notes to be issued, and the Federal reserve banks would make a profit on the new notes, which profit would in turn go back into the Government's pocket.

Senator WEEKS. I assume you would agree that the circulation tax should be increased if they should issue circulation on these new bonds, so that the net return would be exactly the same as on the twos?

Mr. VANDERLIP. That is what I said, that the circulation tax would be  $1\frac{1}{2}$  per cent instead of one-half per cent. But the Government would in the end be compensated for any loss through the earnings of the bank.

In taking up the section in regard to bank reserves, I will say that my general calculation has shown that there will be a pretty sharp contraction in the central reserve cities at the end of the first 60 days. It would not be so sharp, however——

Senator O'GORMAN (interposing). What do you mean by the first 60 days?

Mr. VANDERLIP. The first 60 days after——

Senator O'GORMAN. After the new system is in operation?

Mr. VANDERLIP. After the new system is in operation and reserves can be transferred.

That contraction, although sharp, will not be so sharp but that it can be met, I think, without exceptional difficulty. At the end of three years there will be a possible expansion of \$1,500,000,000 to \$1,700,000,000. To reach such an expansion means that all the Federal reserve banks will have loaned down to the full limit so that they have only 33 per cent reserve, and that member banks would have loaned down to the legal minimum. It is not at all presumable that such a condition would arise.

That figure looks very large, but as we look back and note that in the last three years national-bank loans have expanded \$700,000,000, I do not regard the possibilities of expansion as excessive. I see no reason to anticipate that the expansion would be to the limit, that banks would not still be managed conservatively as they have been, and I should say that the possibilities of expansion were not dangerous, but, on the other hand, were ample.

With respect to the reserve requirement, the law says that banks shall keep a certain minimum in their vaults——

Senator POMERENE (interposing). Before going to that would you object to a question? You say there would be a contraction within the 60 days. Now, for what reason?

Mr. VANDERLIP. For the reason that the central reserve city banks have to repay

balances to both the reserve city banks and the country

banks, and the contraction will come from the great reduction of central reserve city balances, which have to be paid out in full in cash. That will be compensated for in part by the reduction of the reserve requirements in the central reserve cities, but it is not fully compensated for.

In this connection, I fail to see, as I said yesterday, why a central reserve city bank need keep any more reserve than a country bank after the time has past that it keeps any reserve for a country bank. I do not see why the reserve requirements should not be the same all around. As a matter of fact, the city bank is more liquid than the country bank, and why it should have to keep 50 per cent more reserve—18 per cent instead of 12 per cent—although it has no reserve responsibilities whatever to the other banks in the system, is not clear to me.

Senator NELSON. It is on exactly the same footing as the country banks after the 36 months; it is no longer the reserve agent for any country banks.

Mr. VANDERLIP. Exactly.

Senator POMERENE. That is one of the thoughts I had in mind when I suggested yesterday the propriety of giving to this board, subject, perhaps, to the approval of the President, the right to reduce or to increase these reserves, realizing all the while that when we fix a reserve arbitrarily, without practical experience under the new system, it is necessarily somewhat problematical.

Mr. VANDERLIP. There is certainly force in that view. It is problematical whether we can hit on the right reserve. I believe we may sometimes come to the point where we will not have to have any reserve requirement at all, but leave that to the judgment of the banker.

The CHAIRMAN. But you are very clear that the reserve which is to be kept in the vaults of the bank may be left optional, either to be kept in the vault or with the Federal reserve board.

Mr. VANDERLIP. There can be no doubt about that. Why should you force a bank to keep in its vault money which it does not need and which it would prefer to keep with the central reserve bank?

The CHAIRMAN. There is a variable requirement in regard to banks, is there not?

Mr. VANDERLIP. There is; and it occurs to me that there might be some banks with deposits fluctuating so rapidly that the amount you say must be kept in their vaults may not be sufficient.

The CHAIRMAN. And in some cases it may be much larger than necessary?

Mr. VANDERLIP. Yes; that would particularly be so with the large city banks.

The CHAIRMAN. The banks which are in immediate proximity to the reserve banks?

Mr. VANDERLIP. Yes.

Senator O'GORMAN. Do you think this matter might very well be provided for by having a minimum figure mentioned, or contained in the bill, but conferring upon the reserve board a discretion to modify that requirement in a given case?

Mr. VANDERLIP. Personally I dislike too much discretion to be given to this reserve board, at least for the present. Banks like to know what it is they are facing; they like a definite law rather than

a regulation which may be changed without discussion or notification. ]

Senator O'GORMAN. But you have rather intimated that it would be well to have such a discretionary power lodged somewhere to cover a given situation.

Mr. VANDERLIP. It would be well to look forward to a time when we can change these requirements if we have discovered they are not right. Whether that had best be left to the discretion of the Federal reserve board or whether it is a question to be brought back to Congress is a matter for a difference of opinion.

I should have said, Senator, in speaking of the reason for the contraction in central reserve cities, that those banks also, in common with all other banks, must pay in capital to the central reserve bank. That is another reason for contraction.

Senator POMERENE. My thought as to that was that perhaps this bill should be so amended as to permit of the taking of the commercial paper at once and rediscounting it for the time being so as to avoid the necessity of paying so much cash into a vault and keeping it there as dead capital.

Mr. VANDERLIP. The language of the bill leaves it open to question whether a central reserve city bank could discount before it began to deposit.

Senator POMERENE. I think that is true, but it seems to me it ought to be modified.

Mr. VANDERLIP. I think a central reserve city bank should be able to discount before it begins to deposit, because it has to meet drafts immediately on the law becoming effective.

In section 22, which fixes the reserve which Federal reserve banks must keep, it is declared to be  $33\frac{1}{3}$  per cent of its outstanding demand liabilities. I have already spoken of the necessity of calculating net deposits, but I think demand liabilities ought to be more fully defined. For instance, a bank might have borrowed abroad; it is perhaps hardly presumable that it would have borrowed on demand, but it might. You would not want it to keep a reserve against such a liability. I would rather see that section expanded to indicate what the total is upon which reserves are to be calculated.

Senator NELSON. Suppose you put into this "from circulating notes and net deposits"?

Mr. VANDERLIP. That covers the case.

Senator NELSON. In lieu of the language in the bill.

Mr. VANDERLIP. Yes, sir.

Senator NELSON. And then somewhere in the bill define what net deposits are.

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. Why do you think it ought not to be necessary to keep a reserve against a liability made abroad?

Mr. VANDERLIP. I think it ought not to be necessary; I am afraid it might be necessary here.

Senator WEEKS. Why do you think it ought not to be necessary?

Mr. VANDERLIP. It is true that if it were a demand liability there perhaps might be a necessity for a reserve.

The CHAIRMAN. But the assets against a foreign demand of that kind are of such a character that that in reality is a species of reserve against it; is not that true?

Mr. VANDERLIP. I think so—the collateral that probably would be lodged against such a loan.

The CHAIRMAN. The collateral is of such a character that it is really a liquid collateral, and for that reason you do not think a reserve necessary?

Mr. VANDERLIP. Yes.

Senator WEEKS. Why do you think there would necessarily be collateral against such a loan?

Mr. VANDERLIP. It might be either way. If there were no collateral and it were a demand obligation, I suppose it is fair to say that there should be a reserve against it.

Senator POMERENE. What is the fact from a practical standpoint; is there usually collateral against these obligations?

Mr. VANDERLIP. From a practical standpoint I doubt if there would be a demand obligation of this sort. But I think I should say that if the bank borrowed abroad it would probably not borrow on demand.

Senator O'GORMAN. But if you would exclude the foreign demand liability you would afford a ready means to bankers to evade this requirement. If they had reached their limit here in this country, they could then transcend it by securing this accommodation abroad.

Mr. VANDERLIP. That would be possible.

Senator O'GORMAN. And there would be no limitation.

Mr. VANDERLIP. I think, on further consideration, that demand liability in the form of foreign borrowing, at least without collateral, ought to have a reserve against it.

I have no fault to find with regard to the clause concerning bank examinations, except that I feel that central reserve city banks seem to be regarded as needing more careful supervision than country banks, and more numerous examinations are provided.

Senator O'GORMAN. Let me ask you this, Mr. Vanderlip: You have several times spoken of central reserve banks; you mean the Federal reserve bank?

Mr. VANDERLIP. No, sir; I mean the banks in designated central reserve cities.

Senator O'GORMAN. The existing banks?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. Under existing law?

Mr. VANDERLIP. Yes, sir. That law is, curiously, continued without any reason for it.

Senator NELSON. Yes; they keep up the distinction in this law, as I think, unnecessarily.

Senator POMERENE. And you see no reason at all for that distinction in this bill?

Mr. VANDERLIP. No reason for it.

Senator O'GORMAN. If you have the one system?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. And if we do not, as suggested yesterday, provide for the national banks that may not want to come into this system?

Mr. VANDERLIP. Yes.

Senator O'GORMAN. On that point, Mr. Vanderlip, if I get your idea, if this change in our banking law is to accomplish any good, it ought to mean the creation of a uniform and a single system.

Mr. VANDERLIP. Undoubtedly; that is the ideal to be worked for. Senator O'GORMAN. We can not have half the banking system under this plan and half under some other plan.

Mr. VANDERLIP. You can not so have it and have it anything like a success; and I fear this plan will emphasize the difference rather than draw the banks together.

Senator O'GORMAN. So, then, assuming we have one plan operating upon all national banks, at least, you see no particular reason why the central reserve banks should be continued?

Mr. VANDERLIP. If the plan of reserves herein provided—that these reserves shall be either in the vault or in the Federal reserve bank—is carried out, then there is no reason for the distinction between a country bank, a reserve city bank, and a central reserve city bank. If you change this so as to permit some of the reserve deposits to be left with national banks, then there would be reason for the distinction.

Senator NELSON. And this bill obliterates that?

Mr. VANDERLIP. As the bill stands; absolutely,

The national banks do not object to examinations; they object to continuous examination. We do not want so many that we have to keep open nights in order to be examined; and I think a good many examinations are being provided here for the present reserve city banks.

We have, in addition to the examinations provided here, an examination by the clearing house, which might or might not be continued. It has been, I believe, the most effective and thoroughgoing examination that the banks have ever had. We also have examinations by our directors.

There is this thought also in connection with the examination of banks doing a large foreign business: Foreign bankers will refuse to reconcile for examination purposes as many as nine times a year, which might be necessary under this bill.

The CHAIRMAN. They will refuse to do what?

Mr. VANDERLIP. To reconcile their accounts; that is, to O. K. the account up to a definite date. It is too complicated. It is usually done every six months, and you can not get foreign bankers to meet this new condition. They simply won't do it, so your examination, in that particular, might be ineffective in spite of anything either the examiner or the bank could do. There are rather too many examinations provided here, I think, although I am making no plea whatever for scant examination.

Senator O'GORMAN. Mr. Vanderlip, as I read this provision, the minimum number of examinations is two, the power being confided to the reserve board to order others if necessary.

Mr. VANDERLIP. There are examinations by the comptroller, examinations by the board, and there may be examinations even by the Secretary of the Treasury.

Senator O'GORMAN. Is there any reason to apprehend that there will be an unnecessarily large number of examinations each year? Will it not depend upon the view that the reserve board and the Secretary of the Treasury may take as to the necessities of a given situation?

Mr. VANDERLIP. I think that is possible. I think, however, there are too many examinations actually provided for. It says here that

the Federal reserve board as often as it deems best, and in any case not less frequently than four times each year, shall order examinations of national banking associations in reserve cities. Why discriminate against reserve cities?

Senator O'GORMAN. What line are you reading from now?

Mr. VANDERLIP. Page 41, line 14.

Senator O'GORMAN. That relates to reserve cities. But, from the view that has been expressed lately, we may abandon these reserve-city definitions entirely if this plan or any similar plan is adopted. I had in mind a moment ago a provision in the first few lines on page 40 which speaks of examinations of national-bank associations at least twice a year.

Mr. VANDERLIP. It is distinctly desirable that there should be power to have a special examination of any bank concerning which there is any doubt. But to have regularly at least four, as is provided here, and possibly more, I think is bad.

Senator WEEKS. How much does it cost the national banks for the examinations that are now made?

Mr. VANDERLIP. I think it costs our bank about \$3,300.

Senator WEEKS. A year?

Mr. VANDERLIP. For each examination; and I believe the fees of the New York examiner are something like \$35,000.

Senator BRISTOW. How many examiners are there?

Mr. VANDERLIP. Only one; he has assistants, of course. There is one examiner in New York.

Senator BRISTOW. Only one, and he pays his assistants?

Mr. VANDERLIP. He pays his assistants. I think his net fees are about \$35,000.

Senator O'GORMAN. Who appoints him?

Mr. VANDERLIP. The President, on the recommendation of the Comptroller of the Currency.

Senator BRISTOW. The Secretary of the Treasury, does he not?

Mr. VANDERLIP. I think not; I think it is the President.

Senator BRISTOW. Is he made an exception?

Mr. VANDERLIP. No; it is the Secretary of the Treasury.

Senator BRISTOW. Upon the recommendation of the comptroller?

Mr. VANDERLIP. Upon the recommendation of the comptroller.

Senator BRISTOW. Is that accurate—the Secretary of the Treasury or the comptroller?

Mr. VANDERLIP. I am informed he is appointed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury.

Senator O'GORMAN. We are probably getting away from the features of this bill, but it is instructive. What charges are made to the banks for these examinations?

Mr. VANDERLIP. A charge on the percentage of the bank's business. I can not give you the exact percentage, but my recollection is that the fee the National City Bank pays is in the neighborhood of \$3,200.

Senator POMERENE. A year?

Mr. VANDERLIP. For each examination.

Senator O'GORMAN. Can you roughly estimate about how much is paid annually by all the city banks in the city of New York for these examinations?



Mr. VANDERLIP. If my information is correct that the examiner receives net in the neighborhood of \$35,000, it would be that plus what he pays to a half dozen other men that he employs at more moderate salaries. It would be in the neighborhood, then, of \$45,000 or \$50,000.

Senator O'GORMAN. Does he fix the salaries of his subordinates?

Mr. VANDERLIP. He employs them and pays them out of his gross receipts.

Senator O'GORMAN. Are his gross receipts affected by his activities in examining and reexamining?

Mr. VANDERLIP. His gross receipts are based upon the number of examinations, but the number of examinations is provided by law to be two a year.

Senator O'GORMAN. Arbitrarily fixed at that?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. So he could not, if he wished, enlarge the number of examinations?

Mr. VANDERLIP. He sometimes gets in three a year; we have had three in a year, but I think that is a lapping over. We have had three in a calendar year, but I think the average is two a year.

Senator O'GORMAN. What is the average compensation of his assistants?

Mr. VANDERLIP. I do not know, but I would presume from \$1,200 to \$1,800.

Senator O'GORMAN. And they are fairly well-equipped accountants?

Mr. VANDERLIP. Fairly well-equipped accountants. There may be one or two that would get \$2,500. I know nothing about that personally.

Senator O'GORMAN. What does the chief examiner do for his \$35,000?

Mr. VANDERLIP. He superintends the work and is responsible for the reports.

Senator O'GORMAN. Then it is a sort of farming-out process?

Mr. VANDERLIP. Hardly that.

Senator O'GORMAN. The examiner is compensated by the various banks whose accounts he examines, and he in turn employs such assistants as he may require?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. In a big bank, you know, the chief examiner has to go there with his assistants, and it practically, for the time being, suspends the business, does it not?

Mr. VANDERLIP. It does not suspend, but it interferes with it greatly. We walk into the bank some morning and find all of our cash sealed, and we can not open anything except with the consent of the examiner or some one who is in charge. And if we have that happen four or six times a year it gets to be rather trying. That is not necessary.

I want all the examination necessary to insure the soundest banking and the most complete observation of the law; I have no objection whatever to that, but I do not want to hamper business unduly to accomplish that.

Senator WEEKS. You have an auditor in your bank?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. Who is examining all the time?

Mr. VANDERLIP. All the time, unexpectedly taking departments; he is working all the time with a force.

Senator NELSON. I have always thought, Mr. Chairman, that this was an anomaly in our law, for bank examiners to be paid by the respective banks. It seems to me that they ought to be paid a regular salary by the Government and not have the banks pay for these examinations. The pay is based upon the size of the bank and the volume of business, and the disposition has been—take it out in the West—for these examiners to get over the ground as rapidly as possible.

The CHAIRMAN. Some of them have as high as 200 banks to examine.

Senator NELSON. Yes; and the disposition is to go over these banks as rapidly as possible, and instances have occurred where they have done it in a very perfunctory and reckless manner. I think it would be a most wholesome reform to have these men on a salary.

Senator SHAFROTH. Is there not something in this bill on that?

The CHAIRMAN. Yes. Mr. Vanderlip, I wanted to ask you something about the examinations by the clearing-house examiners. How often do they make these examinations?

Mr. VANDERLIP. Once a year, and they are extremely thorough. They are very ably done. We have taken great care to secure there the best possible staff. The examiners are highly paid, and are a very capable class of men.

The CHAIRMAN. How many men are employed by that force?

Mr. VANDERLIP. About 10 men.

The CHAIRMAN. About 10 men under one man?

Mr. VANDERLIP. Yes, sir; and a number of them are fairly highly salaried men, too.

The CHAIRMAN. What is paid the chief examiner?

Mr. VANDERLIP. I do not know that there is any objection to making that public. It is \$20,000.

The CHAIRMAN. And are his subordinates paid as the subordinates of the national-bank examiner—\$1,200 to \$1,800?

Mr. VANDERLIP. Much more.

Senator O'GORMAN. What is their average pay?

Mr. VANDERLIP. There are men who get around \$5,000.

The CHAIRMAN. And they act in concert with the chief examiner?

Mr. VANDERLIP. Yes, sir.

Senator POMERENE. Are those examinations made on his own motion or at the suggestion of members of the clearing house?

Mr. VANDERLIP. On his own motion entirely, and the result of the examination is never revealed to members of the clearing house unless there is cause for criticism. There is the utmost secrecy maintained in regard to those examinations until there is cause for criticism. If there is cause for criticism, that criticism is made to the clearing-house committee, and in that case it is most confidentially treated. I have been chairman of the clearing-house committee, and I am familiar with that. This year I am not chairman, and I have not heard a lip of any criticism. Nothing whatever has leaked from that committee to me, although I was chairman of it last year. I do not know of a single criticism that a clearing-house bank examiner has made.

The CHAIRMAN. Then those clearing-house examinations are not open to the review of the different member banks?

Mr. VANDERLIP. By no means.

The CHAIRMAN. They do not know, from those examinations, where stocks were located?

Mr. VANDERLIP. They have not the slightest knowledge. They do not hear anything except the report that the bank is in a sound condition and being properly conducted, if that is the case. If there were ground for criticism, it would first be taken up with the bank to see if the bank would itself correct it upon the complaint of the examiner. Frequently that has been done and great good has been worked. It is only after the examiner has been unable to harmonize his views with the views of the management of the bank that the matter comes to the clearing-house committee. It is treated in the utmost confidence by the clearing-house committee.

Senator POMERENE. Suppose a man were a borrower in excess of what was a proper amount at two or three different banks, would that fact be made known to those several banks?

Mr. VANDERLIP. It would be made known to those banks, probably by the bank examiner. That is, in the case of the bank he was examining, if he found a loan there from some one who had loans in numerous banks he would explain that to the bank under examination. Whether or not he would also go to a bank not under examination and call their attention to the fact I am not certain.

Senator BRISTOW. In regard to these examinations; of course, you were in the Treasury Department, and you had a very wide experience. Do you not think the present system of paying bank examiners inevitably tends to haste and inefficient examinations?

Mr. VANDERLIP. Undoubtedly a bank examiner is desirous of completing as many examinations in a year as he can, since his compensation depends upon the number he completes.

Senator NELSON. That has been apparent to me for a great many years, out in the West.

Senator POMERENE. I was going to ask one more question along the line I was interrogating you upon. Suppose that the cashier of bank A would have reason to believe or have curiosity to learn whether a certain particular borrower did not have large amounts borrowed at other banks in the city. Would he be privileged to inquire of the bank examiner as to whether or not this borrower had accommodations at other banks; and if so, where and to what amount?

Mr. VANDERLIP. He would be privileged, I think, to make the first part of that inquiry; has the borrower unduly expanded his loans. I do not think he would be privileged to ask where. I do not believe that the bank examiner would give him any information as to the condition of any other bank, even though the inquiry were based on the desire to learn the condition of one of his customers.

Senator O'GORMAN. Would such information be acquired through your clearing-house association?

Mr. VANDERLIP. No, sir.

Senator POMERENE. I had reference to the examiner employed by the clearing house, and from him you could get the information to the extent you have indicated?

Mr. VANDERLIP. Yes, sir.

Senator WEEKS. Did you, as chairman of the clearing-house committee, know or have knowledge of what other banks were loaning, unless there was complaint that there was an overloan?

Mr. VANDERLIP. I had no more knowledge of the business of any other bank after the examination was completed than you have at this moment, if the examiner certified that the bank was solvent and being conducted on sound lines.

Senator WEEKS. And you did not know what particular stocks and bonds they were loaning?

Mr. VANDERLIP. I had not the slightest information. The only report the examiner makes in the case of a sound bank is that he has examined the bank under such a date and found the condition satisfactory.

Senator POMERENE. Is this examiner under bond?

Mr. VANDERLIP. I should not think so; he has no fiscal responsibility.

Senator NELSON. You mean the clearing-house examiner?

Senator POMERENE. Yes.

Senator NELSON. He does not handle any funds.

Senator HITCHCOCK. The United States examiners are bonded.

Senator NELSON. Yes; they give bonds. They are appointed as quasi public officials, and then the public does not pay them. They are paid by the banks.

Senator POMERENE. The secrecy of a borrower's business would depend entirely upon the honor of the man who was employed in the position of examiner?

Mr. VANDERLIP. Yes. I have, after large experience with them, the utmost confidence in their honor and in the fact that these examiners would regard as absolutely confidential any information that came to them.

Senator BRISTOW. Who have usually been appointed as bank examiners in New York by the comptroller?

Mr. VANDERLIP. They have usually been of good experience; perhaps not of very wide banking experience. As I think back, I do not recollect that examiners have usually had a very large banking experience. Our present examiner there is an excellent accountant. He had no banking experience, I think, up to a year or two ago, when he was for a time employed by the First National Bank. He later left that employment and returned to the position of examiner.

Senator O'GORMAN. Is that the official examiner?

Mr. VANDERLIP. Yes, sir; Mr. Starek.

Senator POMERENE. Give his full name.

Mr. VANDERLIP. Charles Starek.

Senator BRISTOW. Whom did he succeed?

Mr. VANDERLIP. I am not sure.

Senator O'GORMAN. What was his position in this bank?

Mr. VANDERLIP. No official position.

Senator O'GORMAN. What was the character of his employment?

Mr. VANDERLIP. I am not aware as to what his duties were.

Senator O'GORMAN. Clerical work or the work of an accountant?

Mr. VANDERLIP. I think the work of auditor and accountant.

Senator O'GORMAN. What is the usual pay of an auditor and accountant in a bank?

Mr. VANDERLIP. An auditor would probably, in a large bank, receive as much as \$10,000.

Mr. O'GORMAN. Is this a large bank?

Mr. VANDERLIP. The First National Bank of New York. Let me say that the fee in New York has always until rather recently been divided between two examiners. Recently one of the examiners, Mr. Rorebeck, has been dropped and we have now only one examiner there.

Senator NELSON. And he gets \$35,000 a year in fees, less what he pays out for his help?

Mr. VANDERLIP. I think plus what he pays out. As to that fee I have no accurate information. That is what I have been told.

Senator O'GORMAN. When you speak of that figure you have in mind the net income of the present auditor and examiner?

Mr. VANDERLIP. Yes. If there were two examiners—

Senator O'GORMAN (interposing). That would be divided?

Mr. VANDERLIP (continuing). It would be divided between the two. There have hitherto been two examiners; there is now only one.

Senator O'GORMAN. Why, if you know, was this change made. Why was Mr. Rorebeck dropped?

Mr. VANDERLIP. I have no knowledge.

Senator O'GORMAN. When did that take place?

Mr. VANDERLIP. Since the beginning of the present administration.

Senator HITCHCOCK. When the examiner comes to your bank, how many assistants does he bring?

Mr. VANDERLIP. About six.

Senator HITCHCOCK. Do they all have a knowledge of the affairs of your bank, when they have completed the examination?

Mr. VANDERLIP. Everything we have is opened to them; under present day conditions our correspondence is given to them.

Senator HITCHCOCK. Do they have a knowledge, for instance, of your loans and collateral?

Mr. VANDERLIP. Absolutely.

Senator HITCHCOCK. All of the men?

Mr. VANDERLIP. All of them; yes, sir.

Senator HITCHCOCK. So that the knowledge of the affairs of the bank is not entrusted simply to a United States examiner and the clearing-house examiner, but to all of these assistants?

Mr. VANDERLIP. All of these assistants have access to the affairs. Whether or not the work may happen to be so divided that one man counts the cash and another checks collateral, I can not say. There is no reason, so far as the bank is concerned, why every one of the bank examiner's staff should not have information about anything in the bank.

Senator O'GORMAN. Have you ever known a case where any of these assistants to the bank examiner have made any improper use of the information they acquired in the examination of a bank?

Mr. VANDERLIP. I never have.

Senator POMERENE. Under the present national banking law, as I understand it, the examiners make their reports to the Comptroller of the Currency, and I assume that under your State banking laws

in New York the examiners there would make reports of their examination of the State banks to the State banking department?

Mr. VANDERLIP. Yes, sir.

Senator POMERENE. Neither one of them would have any means of knowing what the condition of the other set of banks was?

Mr. VANDERLIP. As a matter of fact I think they do cooperate.

Senator POMERENE. What I was thinking to get at was this, that the examiner employed by the clearing-house association would have the means of knowing the condition of all the banks, both State and national, while, primarily at least, the examiner of the national banks would only know the condition of the national banks, and the State examiners of the State banks.

Mr. VANDERLIP. That is quite true.

Senator O'GORMAN. Mr. Vanderlip, from your knowledge of banking conditions in New York, do you think the examinations can be conducted efficiently with one bank examiner?

Mr. VANDERLIP. I think almost any piece of business can be conducted efficiently with one head, if he properly organizes his business.

Senator O'GORMAN. Is it usual for the examiners to participate in the examination of each bank?

Mr. VANDERLIP. It is usual, yes, sir; and I should think it was practical.

Senator O'GORMAN. So that each examination requires his personal presence?

Mr. VANDERLIP. Theoretically it does, and I think practically he is there.

Senator O'GORMAN. Is it possible for one examiner to be present at the examinations being conducted at each bank in the city of New York in a year?

Mr. VANDERLIP. I am very certain that that has been possible in the examination of the National City Bank, and that he has been present.

Senator O'GORMAN. How many national banks are there in the city of New York?

Mr. VANDERLIP. There are 52 central reserve banks in New York, Chicago, and St. Louis.

Senator WEEKS. There has been a recent order of the comptroller which prevents bank examiners from engaging in any other examinations and doing any other work. Do you think that is desirable, as far as the examinations of banks other than national banks is concerned?

Mr. VANDERLIP. Before I answer that question I will answer Senator O'Gorman. There are 36 national banks in New York.

Senator O'GORMAN. In the city of New York?

Mr. VANDERLIP. Yes, sir.

The CHAIRMAN. How many days does it take to examine your bank?

Mr. VANDERLIP. Ordinarily, about a week. We have had an examination recently, however, that has extended over two or three weeks.

Senator NELSON. Your bank?

Mr. VANDERLIP. In our bank; yes, sir.

Senator O'GORMAN. And that occurs twice a year?

Mr. VANDERLIP. Yes. Now, I will answer Senator Weeks's question. I suppose a bank examiner would naturally be pretty busy conducting the duties of his position. Banks have found it rather desirable sometimes to have a bank examiner come in to make a special examination at the instance of directors, and directors have chosen national-bank examiners to do that work because they believed they would do it more efficiently.

Senator WEEKS. You mean directors of State banks?

Mr. VANDERLIP. Yes, sir. I see no great harm in it.

Senator O'GORMAN. Would you find that directors of State banks were also directors of national banks?

Mr. VANDERLIP. I was thinking of directors of State banks who had need for the national-bank examiners.

Senator O'GORMAN. Even there it is necessary, where, at the instance of the directors of a national bank, an examination has been conducted?

Mr. VANDERLIP. Yes; and that independent examination conducted by the national-bank examiner. Of course, it is the practice of New York banks to make at least one and sometimes two examinations a year by the directors. Sometimes it is done in person by the directors and sometimes they delegate it to a chartered accountant or others who will make a very thorough examination.

Senator WEEKS. What I am trying to get at is this, without any criticism of the department. There is a recent order, which, I understand, prevents a national-bank examiner from examining State banks, trust companies, or other institutions. He has to devote his entire time to the examination of national banks. In a community like New York, where there are a great many trust companies, it seems to me you are only getting a partial statement of the conditions of the banks in the community, unless the same man is going to be privileged to examine all the banks.

Mr. VANDERLIP. That is an advantage we gain from the clearing-house examination.

Senator WEEKS. From the Government's standpoint it is somewhat important and advantageous to have some man who will be familiar with the affairs of State banks and trust companies as well as national banks.

Mr. VANDERLIP. I think it would be very advantageous.

Senator WEEKS. Then if that is so the recent change made probably would bring less net knowledge out of the result of those examinations?

Mr. VANDERLIP. I should think so.

Senator HITCHCOCK. Mr. Vanderlip, do you think that the interlocking of directors in those 36 national banks is a source of complaint?

Mr. VANDERLIP. I think it is a source of strength, a source of good management, a source of a better understanding of the credit situation.

Senator HITCHCOCK. Then they have a knowledge of each other's affairs?

Mr. VANDERLIP. They have, to some extent.

Senator HITCHCOCK. That has been charged as one of the serious things in New York which has tended to establish a banking monopoly to the detriment of those who were seeking credit.

Mr. VANDERLIP. It has been so charged, but I do not believe there has been a single instance cited of harm having been done. I will challenge anyone to show an instance where interlocking directorates has led to unfairness to a borrower.

Senator HITCHCOCK. Then it has been charged, too, that it was practically impossible to finance a new railroad company, for instance, for the reason that the sources of credit in New York are so largely controlled by the great owners of the railroads. You have, for instance, as an illustration, the case of Mr. Dave Moffit, out in Denver.

Mr. VANDERLIP. We have had the illustration of the Western Pacific, which was built paralleling the Central Pacific. Money for that was found in New York.

Senator HITCHCOCK. But afterwards the Western Pacific was forced to a compromise and a settlement with the Central Pacific, was it not?

Mr. VANDERLIP. No, sir; there never has been a compromise or settlement.

Senator HITCHCOCK. Was that the Gould line you are referring to?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Did it happen that Gould had one such bank, and that he was able in some independent way to finance the system?

Mr. VANDERLIP. I would not say an independent way. That was financed, I believe, through Blair & Co. They are very important bankers. There is no trouble whatever in getting a sound thing financed in New York if there is money there to finance a sound enterprise.

Mr. Stillwell complained that his Oriental road could not be financed there. It could not. It could not have been financed anywhere, in my estimation, if anybody had sound judgment about the building of such a road.

Senator NELSON. Where was that road to be built—in China?

Mr. VANDERLIP. From Kansas City to Mexico, generally speaking.

Senator HITCHCOCK. There was a time when some very unsound railroads were financed in New York, because there was apparently no combination of banking interests. What new development is this that has enabled the banking interests to discriminate and to exclude some propositions when they come to them?

Mr. VANDERLIP. I should not think there ever was a time that unsound business could be done in New York because there was no combination. If there are people in New York with capital which they are ready to put into an unsound enterprise they can be found to-day as readily as they could any other time.

I believe there is no such discrimination, or no such combination. The charge can not be sustained that a sound commercial enterprise, a sound proposition for railroad building, can not be put through in New York because it might compete with some existing business.

If it will so compete as to endanger its own success, certainly it can not be done if the people in control of the capital have sound judgment. But the fact that it would compete with some existing enterprise, which enterprise was financed by the strongest house in New York, would not be a barrier against finding capital for it if it is essentially sound in itself and will not have its own future endangered by the competition which it will encounter.



Senator REED. You mean if there is room for two?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Suppose a project was undertaken to finance a railroad to compete with the Jim Hill system and such a project came to the attention of what we will call the Morgan banks. Would not those banks inevitably feel interested in discouraging that project?

Mr. VANDERLIP. I can say that the National City Bank has financed a railroad project in the Southern Railway field, the Southern Railway Co. being a Morgan enterprise, and this project being directly in competition with the Southern Railway Co.

Senator HITCHCOCK. How lately was that?

Mr. VANDERLIP. It is now in process of building.

Senator HITCHCOCK. About how large a project is it?

Mr. VANDERLIP. \$10,000,000 or \$12,000,000.

Senator NELSON. It is not long ago since the New York banks financed the extension of the St. Paul road to the coast, in competition with the Northern Pacific and the Great Northern, which are commonly called Morgan roads?

Mr. VANDERLIP. The National City Bank financed that extension.

Senator REED. As I understand you, Mr. Vanderlip, the test is this—as you put it—whether there is room for two enterprises. If there is room for two enterprises, then you claim that there would be no barrier; if there is not room for two enterprises, then nobody but a foolish person would put his money into a competing line when the competing line would never pay?

Mr. VANDERLIP. That is exactly what I mean. There is no such thing as a strong interest putting out a ban on the financing of a new railroad proposition and saying to New York financiers that this new road must not be financed because it is going to compete with an existing railroad that has been financed by this strong interest. The thing is not done. It does not exist. It is not true.

Senator HITCHCOCK. You mean the heavy railroad owners are interested in the banks of New York?

Mr. VANDERLIP. They are interested in the banks; yes. But the banks are run primarily by themselves. The bank officers solely are in charge of the conduct of the bank.

Senator BRISTOW. That is, you claim that a railroad may be interested in a bank, and be a most important factor in the management of that bank, and still that bank would pay no attention to the affairs of that road as far as financing its competitors is concerned?

Mr. VANDERLIP. No such condition exists. There is no bank that I am aware of in which a railroad is an important factor in the management of the bank. The relation is the other way around.

Senator NELSON. It is the railroads which need the banks?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Take the firm of Kuhn, Loeb & Co., they are heavily interested in the Union Pacific?

Mr. VANDERLIP. Yes, sir.

Senator HITCHCOCK. Would it not be natural that they would discourage a system competing against the Union Pacific?

Mr. VANDERLIP. Naturally they would discourage any competitive system, but Speyer & Co. would not, and Morgan & Co. would not.

Senator BRISTOW. Would not Kuhn, Loeb & Co. have such large interests in banking institutions as to make their influence potent?

Mr. VANDERLIP. That is exactly the thing that does not exist. I do not think there would be the slightest hesitation on the part of other firms perfectly competent financially to finance a road in competition with another road that was financed by another institution, if the sound judgment of the firm was that the road would be successful in spite of the competition.

Senator HITCHCOCK. Then if Speyer & Co. would finance something that would seriously endanger a great interest of Kuhn, Loeb & Co., Kuhn, Loeb & Co. would retaliate, would they not?

Mr. VANDERLIP. Undoubtedly. But not for the purpose of retaliation. They would not retaliate in that way. If there were some territory in which Speyer & Co. were interested, and if there were sufficient business to make the new road successful, I do not doubt but what Kuhn, Loeb & Co. would finance that, and they would do it now or after such a situation as we have outlined. That is not retaliation; that is good business. There is plenty of banking capital, there are plenty of individual banking houses to finance good business.

Senator HITCHCOCK. Then when witnesses come before this committee and say that there is a combination in New York they are mistaken?

Mr. VANDERLIP. They are mistaken. It is a figment of their imagination. They probably have read newspaper headlines and heard statements, and they do not know the truth.

Senator HITCHCOCK. When they come and testify of their own knowledge and experience?

Mr. VANDERLIP. Then I advise you to analyze very carefully that experience and check it up, because the combination does not exist.

Senator BRISTOW. Now, Mr. Vanderlip, you claim that the men who run the New York banks, and who control them, are different in the moral and mental make-up than the average banker of the country?

Mr. VANDERLIP. I make no such claim whatever. Nothing can be further from my mind.

Senator BRISTOW. Do you think the average banker would finance a proposition if it was detrimental to his largest stockholder and the most important depositor?

Mr. VANDERLIP. To his largest stockholder; no. To his most important depositor, perhaps, yes. It would be then a case of weighing the advantage between the deposit and the advantage of financing that enterprise.

Senator BRISTOW. And if the advantage of the deposit was greater than the advantage of the enterprise, he would not finance it?

Mr. VANDERLIP. Probably not. But in no case, sir, is a deposit of sufficient importance to prevent any banker from financing an important enterprise, a very important enterprise.

Senator O'GORMAN. In that connection, let me ask you this question. At the present time, perhaps during the memory of those now engaged in the banking business, is there not a keen competition for business between banking interests in the city of New York?

Mr. VANDERLIP. I believe there is no line of business in the country where competition is more keen.

Senator O'GORMAN. Would not that competition be keener in New York to-day than in any other part of the United States?

Mr. VANDERLIP. I think so.

Senator O'GORMAN. Because of the great volume of money in New York?

Mr. VANDERLIP. Yes, sir.

Senator REED. How much money does your clearing house carry?

Mr. VANDERLIP. The clearing house carries no money, sir.

Senator REED. They have no deposits of any kind?

Mr. VANDERLIP. They have no deposits of any kind; that is not the function of the clearing house. The clearing house does have in its vault a certain amount of gold which is merely there in the nature of being in a warehouse, so that we do not have to move gold about. There are never any deposits.

Senator REED. Who puts up that gold?

Mr. VANDERLIP. Any banker who would prefer to have a piece of paper, a clearing-house certificate, for \$10,000 instead of \$10,000 in cash.

Senator REED. Really, the bankers put up a central deposit of gold?

Mr. VANDERLIP. No, sir. There is no deposit at all. That is purely a warehouse function for banking purposes, to aid us in paying balances between the banks, and permitting us to give an order on this warehouse instead of carting the gold about the streets.

Senator REED. Where is the gold kept?

Mr. VANDERLIP. In a vault in the clearing-house building.

Senator REED. Where does the gold come from to get into that vault?

Mr. VANDERLIP. From any banker who chooses to deposit gold there and take up certificates to represent it.

Senator REED. In settling your balances you use these certificates?

Mr. VANDERLIP. Yes, sir.

Senator REED. I inquired about the amount that was kept.

Mr. VANDERLIP. My recollection is that there is about \$90,000,000. That figure will not be exactly correct.

Senator REED. Now, I want to come back to matters that concern this bill, and I asked that question simply for the purpose of knowing how much gold there might be in the one place.

Mr. VANDERLIP. That has no relation whatever to the reserves of the banks, or the money market. That is only a physical convenience.

Senator REED. In settling your balances, instead of counting out gold to each other, you simply check against this gold?

Mr. VANDERLIP. Yes, sir.

Senator REED. And settle it in that way?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. It is simply a warehouse where you can keep gold on which you can draw, instead of keeping it in your vault?

Mr. VANDERLIP. Yes, sir.

Senator REED. You do not have to draw gold from there; you send the certificates around and have a little balance left?

Mr. VANDERLIP. Yes, sir.

Senator REED. I want to ask you about a matter of great importance in this bill concerning which I do not think you have been questioned before. How much gold reserve do you think ought to be kept in the regional banks?

Mr. VANDERLIP. In normal times perhaps as much as 80 per cent.

Senator O'GORMAN. How much?

Mr. VANDERLIP. Eighty per cent. That is a very difficult question to answer, and my reply is a sort of shot in the dark. In normal times these banks ought not to be used for conducting the current business of the country. They ought to run with very strong reserves. They ought to be under no compulsion to earn money, and they ought to conserve reserves in order that they may be enabled to make these rediscounts when necessary.

Senator O'GORMAN. The larger the gold reserve the safer the whole structure would be, in your opinion?

Mr. VANDERLIP. The larger the gold reserve carried, the safer. I can not say the larger legal minimum.

Senator O'GORMAN. Where do you think the law ought to put the minimum?

Mr. VANDERLIP. I think the law as it is drawn, with a minimum of 33½ per cent is all right. As a matter of fact, I do not believe in legal minimums, anyway. I believe that should be left to the conservative conduct of good managers of banks.

Senator O'GORMAN. Do you not think there ought to be a sentence of penalization for going below a certain point, in order to encourage keeping above that point?

Mr. VANDERLIP. A penalization in this case is not a very effective sentence. You penalize the earnings that come out of the Government.

Senator O'GORMAN. That is what we discussed yesterday. Now, you have examined this bill with reference to the possibility of inflation, have you not?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. I believe you said you thought there was a great power of inflation in it. Of course, a 33½ per cent gold reserve would be some check on paper inflation, and the larger the gold reserve the greater the check; is that not true?

Mr. VANDERLIP. Just what do you mean by paper inflation?

Senator O'GORMAN. I mean this money that is to be issued from time to time upon collateral, notes, etc.

Mr. VANDERLIP. Please do not confuse inflation of credit with inflation of currency. You can not have an inflation of currency if you have ample redemption facilities. Gold will not be held in people's pockets; the currency can not be held in reserves. It will be deposited in banks by the men who do not want it in their pockets, and it will be retired. There will be in the way of the correct operating of that principle the fact that these notes may find their way into the reserves of State banks. Were it not for that, there would be as great conformance to business needs in note issue as in deposit balances. And deposit balances ought to be readily interchangeable with notes according as the customer wants credit as a deposit balance, or wants it as a note. There is no more reason for the Govern-

ment charging interest on these notes or guaranteeing these notes than there would be for the Government to guarantee the deposits in these banks.

Senator REED. I know that is a favorite theory with bankers, but nevertheless I hardly think that it is practical at this time to expect that sort of theory to be carried out.

Now, I want to direct your attention to this thought as bearing upon that theory. You say that if a man has a bank credit of \$10,000, he has the right to issue his check against that credit, and that that is simply a method by which he uses that bank's credit, makes it available, and if the bank, instead of giving him a bank credit and check against it, was to issue to him bank bills and let him put them in his pocket and carry them away, that that is only a bank credit. That is the argument. Now, in the practical operation is there not a tremendous difference?

I get a credit with your bank for \$10,000, and I put my check book in my pocket, and I draw checks. There is only one place in the world to redeem those checks, and they do not pass current from hand to hand. They may pass to one man that I happen to know and will accept my check because he happens to know me, but to all practical purposes those checks go back into the bank within 24 hours after they are issued, on the average, and the transaction is closed. But if you give me \$10,000 of your bank notes, and I put them in my pocket, they may travel all around the United States and be in circulation six months or a year before they get back to your bank. Is that not true?

Mr. VANDERLIP. That is not true unless there is need for them for just that purpose.

Senator REED. Let us see if that is sound. I question the soundness of it most emphatically, although I do not want to get into a financial argument with you, for I would be on very doubtful ground. Do you not confuse the term "need" with the man? A man is engaged in a lot of wild-cat circulation. He is booming railroads that may never develop into paying propositions. He is buying acre property and laying it out into town lots and building houses, for which there will never be a real demand, and he needs money mighty badly.

Mr. VANDERLIP. He needs credit, not money.

Senator REED. He needs something that will pass for money, and therefore if he got hold of these notes he would be engaged in transactions in which he could constantly be using them; and yet, is it not true that as a matter of fact, the very existence of that money tends to promote this wildcat speculation, and is that not the trouble with all inflation, and is it not true of a bank note, as it is true with any kind of other money that circulates?

Mr. VANDERLIP. Let me see if I can not make this very simple and clear. Let us suppose a community has no outside financial connections. This community is doing its business with the exact amount of currency in its pockets that it wants and a certain amount of reserve in its banks. A wildcat real estate operator buys some outlying land and cuts it up into lots and builds houses on them that will not sell. At no time during this process has that community got any more money in its pockets than it had before, no matter how much money in the form of circulating notes this man might have succeeded in

drawing from a bank on sound collateral. He could not get the notes without sound credit. He has bought a piece of land and paid for it, we will say, with \$10,000 of notes. What will any man who receives the notes do with them? Will he carry them around with him? Not at all. You know what he will do with them. He will take them to his bank and deposit them. They are of no value to the bank's reserve, and therefore they will be redeemed.

Senator REED. You see the trouble with that illustration is that you leave out of it, I think, two important propositions. In the first place, you have not got a circumscribed community. You have got an enormous country, and the note starts on its course. Then, I think, that you leave out of your argument another very important consideration, and that is that while there may be no more money, but there is something that performs all the functions and uses of money.

Mr. VANDERLIP. Oh, but these notes do not.

Senator REED. They do, while they are out passing from hand to hand; and, as long as they are out, they might just as well be in money. And then I think you leave out of consideration the fact that when that man begins to build those houses he has bought from the lumberman an unnecessary amount of lumber, and he has boomed the lumberman's business. The lumberman who sold his lumber buys from the sawmill, and he has boomed the sawmill man's business. The sawmill man goes out to buy more timber land, and he has boomed the land business. He hires a lot of men to cut down trees, and they have boomed the lumber-camp business. All these things have boomed the grocery business, the dry-goods business, and the wholesale business, and you have, after all, a vast structure of business and credits based upon an original bad investment, and all of it carried on because there is plenty of this stuff circulating around that they call money.

Mr. VANDERLIP. Based exactly as you say, on an original bad investment—not based on the issue of notes. The bad investment could have gone on exactly the same with the plan of deposit credits instead of notes.

Senator REED. There is just the point I raised. This man comes down with security to the bank, with his own note, and he puts it up and the bank issues this thing that circulates as money. If the banker did not have the right to do that, he would have to look in his till, and if he did not have good hard money there the transaction would stop. And I can not see why—because we all admit that wild inflation brings wild results—why the bank note that goes and circulates three months, six months, or a year and gets out in almost unlimited quantities can not produce exactly the same result that it would if the Government could issue wildcat money.

Mr. VANDERLIP. That is because you believe men will carry more money in their pockets if there is facility for turning a bank credit into a bank note. I hold they will not. That is an absolutely fixed quantity, determined by the habits of the people. There will be no more money in the people's pockets under any scheme of note issue where there is an adequate redemption facility back of it. Those notes will come right back into the bank—right back for redemption—the moment there is any redundancy of them. I think you confuse an issue of notes with an overissue of credit.

**Senator REED.** Perhaps I do. I wanted to suggest the idea to you with a view to perhaps modifying yours, but I see I am not going to be able to do that.

**Mr. VANDERLIP.** I am very earnest and honest in my opinion.

**Senator REED.** I know you are, and I am just as earnest in mine; and I will pass on to something else, where, whether we can agree or not, I can get your view. I want to ask you about the value of the currency system to the whole financial structure, to this large reserve which the Government now has, against which it issues gold certificates and which it holds back from the banks.

**Mr. VANDERLIP.** I do not regard the gold back of gold certificates as a gold reserve at all. The Government is acting as a warehouseman.

**Senator REED.** Well, call the Government a warehouseman. Is it of value to our financial system? Does it add to its stability?

**Mr. VANDERLIP.** Certainly it does, because it represents the gold certificates that are in the bank reserves. It is also true that there are many in the hands of the people. They are there to a much larger extent than they should be, because you have reduced the size of the gold certificate, which, in my opinion, was quite a wrong thing to do. The \$10 gold certificate is now largely in the hands of the people, when it ought to be in the reserves.

**Senator REED.** The mere fact, I take it, that there is piled up an immense amount of gold, although there are gold certificates out against it, has a very steadying effect upon our financial system.

**Mr. VANDERLIP.** Not the slightest in that sense.

**Senator REED.** In what sense?

**Mr. VANDERLIP.** It is the fact that these certificates are in the hands of the banks, are in the reserves of the banks, that has the steadying effect, and the knowledge that the certificate is backed by gold. The function of the Government is merely one of physical convenience, just as I said in discussing the warehousing function of a clearing house, with its clearing-house certificates issued against the gold. It is thus possible to have this gold in the form of convenient paper instead of actual coin, and that is the only function the Government is performing.

**Senator REED.** I am just trying to get one question settled—whether it is a good thing in our financial system to have that gold piled up in the vaults of the Treasury of the United States.

**Mr. VANDERLIP.** It is neither good nor bad.

**Senator REED.** It is utterly useless?

**Mr. VANDERLIP.** No; it is not utterly useless, because it is a great convenience to the business of the country. We could not do business freely with actual money. Of course we could do it, but it would be an annoying thing.

**Senator REED.** I think this: I think that in view of the fact that gold is the ultimate money of redemption the world over, the mere fact there was a large amount of it in the vaults of the Treasury of the United States, although there were gold certificates that were out against it, would have a tendency to inspire confidence in our ability to take care of ourselves.

**Mr. VANDERLIP.** It would have a tendency to inspire great fear if they thought you were going to use that gold for any purpose

other than the purpose of placing it in a warehouse for the redemption of the certificates out against it.

Senator O'GORMAN. Right there, Mr. Vanderlip, is it not of great importance, in considering the security of our credit, that in the United States, whether in the Government vault or in the vaults of our banks, we should have the actual physical possession of a large quantity of the gold of the world?

Mr. VANDERLIP. Certainly it is, but it is not of importance whether that gold is in the bank or whether it is in the Treasury and the representative of it, the gold certificate, is in the bank. It is not the fact that that gold has been collected in the Treasury that is important, but it is important that in this country, in the reserves of the banks, and elsewhere, there is either the gold or the representative of it—the gold certificate.

Senator REED. It is important that you have it in the country.

Mr. VANDERLIP. Very important; tremendously so.

The CHAIRMAN. Mr. Vanderlip, I want to ask you a question: Suppose the Government were to take the gold which is now in the Treasury as a current fund and place it in the redemption division as a reserve fund, and issue against that the Treasury gold notes, payable in gold at Washington, and put them out in small denominations as legal tender, would it not have a beneficial effect on the gold reserve of the United States?

Mr. VANDERLIP. Well, of course, you are presuming the calling in of the gold certificates.

The CHAIRMAN. No.

Mr. VANDERLIP. Why, it would have a most disastrous effect, for you to take the gold that is back of the gold certificates out of the Treasury.

The CHAIRMAN. I am not proposing anything of the kind; I made no such suggestion. What I said was that suppose the current gold that is there as a part of the general fund we have now in the Treasury, as part of the current fund, over \$100,000,000 of gold, and I was suggesting that the Treasury issue in lieu of that a Treasury gold note of small denomination, payable in Washington City, but taking the gold itself and putting it in the redemption division as against those notes issued in that way.

Mr. VANDERLIP. I can see no essential difference between that note and the gold certificate, but in making them payable in small denominations you encourage their use in the hands of the people instead of retention in the reserves of the banks. That is where the gold should lodge. The money in the hands of the people should be bank notes, and the gold certificates should lodge in the banks. Your plan would merely give a Treasury note dollar for dollar, payable in gold, instead of a gold certificate dollar for dollar.

The CHAIRMAN. It would have the effect, would it not, of putting these notes out in the hands of the people, where they would not come back for redemption, and in that way leave this additional gold as an additional reserve against the outstanding greenbacks?

Mr. VANDERLIP. It would have that effect; yes.

The CHAIRMAN. And in that way it would strengthen the position of the Government as far as redeeming those notes is concerned?

Mr. VANDERLIP. The position of the Government would be strengthened, so far as redeeming the greenback was concerned.



Senator REED. How could you redeem the greenback? That is gold put away and gold certificates issued against it.

Mr. VANDERLIP. He does not propose to issue gold certificates against it.

The CHAIRMAN. It is not to be a warehouse receipt, but simply an issue, dollar for dollar for gold, payable at the Treasury in Washington, in gold.

Mr. VANDERLIP. Yes.

Senator NELSON. The volume would be measured in the volume of the gold?

The CHAIRMAN. But the gold would belong to the United States, and not belong to the holder of the notes, unless he would come in and bring them for redemption. They would not be a warehouse receipt.

Mr. VANDERLIP. No. But the notes you issued would be on a parity with the greenback—that is, they would have a claim of the same nature as the greenbacks against the total fund, dollar for dollar, of gold, to be represented by Treasury notes, plus \$150,000,000 now back of the greenbacks and plus the free gold.

The CHAIRMAN. Yes; a claim against assets or funds of the United States.

Mr. VANDERLIP. Yes.

Senator SHAFROTH. Mr. Vanderlip, I read an interview with you in the newspaper four or five weeks ago, in which you stated in New York there was a demand, in your judgment, for \$2,000,000,000 for the purpose of developing water power in the United States. Can you tell what, in your judgment, is the legitimate demand for development of all kinds in the United States?

Mr. VANDERLIP. In the first place, I would like to correct the impression as to what my exact statement was. You probably read an address I made in regard to the development of the electrical industry of the country.

Senator SHAFROTH. Yes.

Mr. VANDERLIP. I stated that in the next five years I believed the total electrical development, power stations, water power, railway electrification—all things incidental to the electrical business—might properly consume \$2,000,000,000 capital. I believe that is a conservative estimate. I do not say they will, because I doubt if that amount of capital is readily available for that purpose.

Senator SHAFROTH. What, in your judgment, is the total demand for all enterprises that could legitimately be considered as good enterprises in the United States in the next five years?

Mr. VANDERLIP. I would not want to make an offhand estimate of that. I do know that the needs for railroad development are perfectly tremendous. I believe so great an authority as Mr. Hill stated they would equal \$1,000,000,000 a year. That would seem to me to be a pretty high estimate. Certainly it is more than they are likely to get, but there will certainly be several hundred millions a year, right along, necessary for railroad development.

Senator SHAFROTH. Well, in other lines do you think that there will be in fact a great deal?

Mr. VANDERLIP. We are now spending a vast amount the country over on building good roads. There is need for a large sum for municipal loans and other loans of that character. All sorts of in-

dustrial development will go on and will require capital. It is quite impossible to say, with such information as I have at hand, what would be a fair estimate of the total.

Senator SHAFROTH. Now, Mr. Vanderlip, the difficulty with the national-bank notes at the present time in seeking redemption at Washington is due to the fact that it is not constituted a legal reserve of the bank, is it not?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. That is the reason it comes to Washington?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. And that redemption now amounts to pretty near the total issue every year?

Mr. VANDERLIP. Yes.

Senator SHAFROTH. If this bill goes into effect and all the State banks come into operation under it, the State banks would no longer use the national-bank notes as reserve.

Mr. VANDERLIP. No; the State bank which would become a member bank, presumably, could no longer use these notes as reserve, though it is not specifically so stated in the bill. There is merely the word "regulation," which is open to any construction you may choose to put upon it.

Senator SHAFROTH. What is required of the reserves here in this bill is that it shall be the same as that now required for the national banks to keep in their vaults.

Mr. VANDERLIP. Yes.

Senator SHAFROTH. Which, I take it, would not include the notes that are issued in this system here.

Mr. VANDERLIP. That is certainly presumable, and would surely be desirable.

Senator SHAFROTH. Then, if State banks come in there will be an enormous demand for more reserve money, will there not?

Mr. VANDERLIP. No; not a very enormous demand for more reserve money, because part of the reserves, which they now presumably keep in cash, could be kept as balances with reserve banks. I am not aware, and I think no statistics are available, as to how many national-bank notes are in the reserves of State banks. I think it is not considerable.

The CHAIRMAN. That is reported.

Mr. VANDERLIP. That is reported? I was not aware of that. At any event, I do not believe it is large.

The CHAIRMAN. That is not large.

Mr. VANDERLIP. No. That, as you say, would not make an enormous new demand for reserves.

The CHAIRMAN. The national-bank notes in State banks and national banks combined would not exceed \$75,000,000. That is the reason why I was asking you about building up this reserve, because I thought it would prove to be an expedient to retire that amount of national-bank notes, taking up the 2 percents, and putting the 2 per cent bonds then in the redemption division as 3 percents, and issuing a legal-tender note in lieu of these national-bank notes, payable in gold at the Treasury, which might be used as reserves by the member banks.

Mr. VANDERLIP. I have two or three rather important suggestions I want to make before the hearing closes.

The CHAIRMAN. It is 20 minutes to 12 now, and I think we had better proceed.

Senator REED. Mr. Chairman, Mr. Swinney is here, and I wanted him to have at least 20 minutes.

Senator BRISTOW. We will meet this afternoon.

Senator REED. But he is leaving on the 3 o'clock train.

The CHAIRMAN. The committee can meet at any time it wishes, or might continue the session.

Senator NELSON. We might meet at half past 1 o'clock.

Senator REED. I was going to suggest that in view of the fact that he does have to leave, and I think has a short message to deliver, possibly we might hear him now.

Mr. Vanderlip is not going to be able to get through, and as Mr. Swinney will only take a few minutes, I was going to suggest we hear him now, if that will be satisfactory to Mr. Vanderlip.

Mr. VANDERLIP. It is perfectly satisfactory.

Senator NELSON. You can be with us this afternoon?

Mr. VANDERLIP. I am entirely at your service.

Senator REED. However, as it has been suggested that we meet at half past 1 o'clock, suppose we let Mr. Vanderlip go on for the present.

The CHAIRMAN. I remind the committee that there are some gentlemen here from Iowa, bankers or business men from that State, who have been advised they could be heard to-day.

If it is agreeable to the committee, we will hear Mr. Swinney now.

Senator REED. The first suggestion was that we meet at half past 1 o'clock and hear him then.

The CHAIRMAN. Very well; that will be the order if there is no objection.

Mr. VANDERLIP. I can finish in five minutes myself, unless you have questions to ask me.

The CHAIRMAN. All right; proceed, Mr. Vanderlip.

Mr. VANDERLIP. In regard to the section on farm loans, I do not believe in a commercial bank having real estate mortgages. Practically, however, the limitation in here, that no bank shall use more than 25 per cent of its capital and surplus for this purpose, makes it safe. I recognize the competition that national banks are under with State banks in the West, and the fact that these loans are perfectly secure, as a rule. They may be perfectly secure, but they are also perfectly unliquid. I do not believe in encouraging that type of business for commercial banks, but even with that view, I do not think that the clause as here drawn will lead to any disaster, and the limitation is a proper one.

Senator WEEKS. Won't you add to the suggestion also that it limits the commercial bank on demand deposits?

Mr. VANDERLIP. Of course that is what I mean. A commercial bank having demand deposits ought not to devote any considerable amount of its resources, at least, to investment in unliquid assets in making unliquid loans. Taking up the savings-bank feature, I have paid no great attention to that, because in any event it probably would not interest the large city banks. In one particular it is so drawn that it could not interest the large city banks. It states that the amount segregated as the capital of the savings departments shall in no case be less than \$100,000 or a sum equal to 20 per cent of

the paid-up capital and surplus of the national bank. That would mean that the National City Bank, in order to establish a savings department, would have to segregate \$11,400,000 of its capital to do so. This 20 per cent ought to be changed, if you desire at all to encourage the large banks to have savings-bank departments. It means a segregation of too much. A \$15,000 limitation is probably wise, and perhaps at the other end you might have a \$200,000 or \$500,000 limitation. But to say that the bank, no matter how large, if it desires to start a savings department, must segregate 20 per cent of its capital and surplus is equivalent to saying a large bank never will do it.

Senator BRISTOW. Your suggestion would be, after "\$15,000," in line 6, to strike out "or than a sum equal to 20 per cent of the paid-up capital and surplus of the said national bank," in the next two lines, and then make it read "not less than \$15,000 or more than \$200,000"?

Mr. VANDERLIP. No; I would let it be as much as any one wants it to be, but if you feel that a large banker should not be governed by the \$15,000 limit, then I would say that banks of a million capital should segregate 5 or 10 per cent. But to make them segregate 20 per cent practically prohibits them from ever undertaking the business.

Senator REED. What is the use of making any limitation at all?

Mr. VANDERLIP. None at all that I see.

Senator REED. What is the use of saying a bank should set aside 20 per cent in the savings-bank business? Why not prohibit them from doing it at all?

Mr. VANDERLIP. Oh, but it is done, to a very large degree. Every report of the comptroller shows that.

The CHAIRMAN. There is now \$820,000,000 invested in savings-bank departments.

Mr. VANDERLIP. \$820,000,000, according to the last call?

Senator REED. What is the amount held on deposit?

Mr. VANDERLIP. That is the same thing.

Senator HOLLIS. Half of them have savings-banks departments now. Just about half.

Senator REED. I do not believe they have any legal right to establish a savings-bank department.

Mr. VANDERLIP. The comptroller winks at it.

Senator REED. Then, he is not following the law.

Senator NELSON. I do not believe the small country banks would avail themselves at all of this. They prefer the present system. It has worked well.

Mr. VANDERLIP. On page 45, line 11, the power is given national banks to act as trustee for mortgage loans. Taking that in connection with this section, I presume that means farm-mortgage loans. It ought to be cleared up. I should be glad to see it extended, so that a national bank may act as trustee for any mortgage loan—that is, corporate mortgages. That is one of the things that a trust company does that a national bank can not do, and it is very profitable to the trust companies. I see no reason why a national bank should not act as trustee in such cases. The language is not clear, however.

The provision in regard to foreign branches is a very desirable thing. It is impossible for any national bank to engage in foreign business now. I have given careful consideration to the subject of banking in South America and have found it was quite impossible for us to engage in business as the laws now stand. There are other reasons, too, that make the development of this business difficult. I think the law is so good where it says a certain amount of capital shall be set aside. I do not know just what that means—set aside.

Senator NELSON. What does it mean?

Mr. VANDERLIP. Page 50, line 4: whether there shall be the complete segregation that is provided for in the savings-bank clause, where all capital segregated shall be used to pay all deposits of the particular department where it has been segregated, before any of it is used to pay other deposits or not. That is not fully enough explained: it does not tell exactly what is meant.

Senator NELSON. Would you weaken the foreign department if you limited it?

Mr. VANDERLIP. Very much. And if you do not limit it, the "setting aside" means nothing.

Senator NELSON. Ought not that to be left optional with the banks?

Mr. VANDERLIP. I think it ought; yes. As a matter of fact, if you have a foreign branch, your whole credit is really involved in its success or failure.

Senator NELSON. And ought to be involved?

Mr. VANDERLIP. And ought to be involved. There ought to be no setting aside whatever. The Aldrich bill permitted the formation of a specific foreign bank, the stock of which could be owned by the parent bank. That made the two somewhat distinct, but did not involve the capital of the national bank any more than to the amount of the capital held in the foreign bank. I do not recommend that particularly as the course to be followed; at any event, I call your attention to this as not being clear.

Senator NELSON. It seems to me the foreign branch bank should be on exactly the same basis as the domestic bank.

Mr. VANDERLIP. I should think so.

Senator REED. And then they ought to have some means of inspecting that foreign branch bank.

Mr. VANDERLIP. That is provided and should exist, of course. The Federal reserve board is given power to refuse the application for a foreign branch if there are reasons—that is, for any reasons it sees fit. All those grants of power when you do not know how a board is going to act or what may be intended are uncertainties in the minds of the business men. You do not know what to think of the law when you do not know just what the law means.

Senator SHAFROTH. It can not be worse than it is now, where they have no law.

Mr. VANDERLIP. Oh, yes. A very unsound banking system, I suppose, could be worse.

Senator SHAFROTH. I means as to the discretion given to the board.

Mr. VANDERLIP. That is perfectly true, although it might permit one of our competitors to have a foreign branch and to say to us that we could not, and we would not like that.

Senator SHAFROTH. There is no authority now to establish a foreign bank?

Mr. VANDERLIP. None whatever.

Senator HITCHCOCK. Can you not accomplish the same thing through a correspondent there?

Mr. VANDERLIP. By no means.

Senator HITCHCOCK. Suppose those interested in your bank organize a private bank in London: can you not do business with each other, practically?

Mr. VANDERLIP. Let us think about that. Those interested in our bank. That means a good many hundred people, interested in different relations. Say we attach the ownership of a foreign bank to the stock of our bank, in some way. What shall we do? There would at once arise a complicated situation. You have got to have the interest of the foreign branch on all fours with the interest in the parent institution. You must not make it possible for a few insiders to own the foreign branch and juggle the United States bank for their benefit. That would not be wise or desirable. The interests of the two must be on all fours; they must, in some way, be part of one another. It may be either by a branch, provided here, with a clear understanding as to what "setting aside the capital" means, or by the establishing of an entirely distinct foreign bank, all of the capital stock of which is owned by the national bank that considers it a branch.

Senator HITCHCOCK. Can a State bank in New York have a branch in London?

Mr. VANDERLIP. It can and does. Several of them now have; also in Berlin and Paris.

Senator HITCHCOCK. That is one of the advantages they have, the State bank, in New York City?

Mr. VANDERLIP. Yes.

Senator NELSON. It seems to me, Mr. Vanderlip, in order to help our foreign commerce, our branch banks in foreign countries, for instance, in London, ought to be of such a character that the acceptance of that bank which would represent the foreign bank in this country, should be of such value that their acceptance would be as good as the acceptances of the foreign bank.

Mr. VANDERLIP. And to have it of value, you must have all of the capital stock back of that acceptance—the whole strength of the bank must be back of it.

Senator NELSON. Yes: the whole strength of the bank must be back of it. For instance, I had a case here of importing coffee—

Senator O'GORMAN (interposing). Senator Nelson, I call your attention to the fact that it is now nearing 12 o'clock, when the Senate meets, and you want to be there.

Senator NELSON. Yes: I will not ask any further questions now.

The CHAIRMAN. The committee will stand adjourned until half past 1 o'clock.

(Thereupon, at 11.55 o'clock, a. m., a recess was taken until 1.30 o'clock p. m.)

## AFTER RECESS.

## STATEMENT OF FRANK A. VANDERLIP—Continued.

Senator BRISTOW. Mr. Vanderlip, I understood you to say that you believed national banks ought to be permitted to establish branches. You limited it to the cities where they were located, but I inferred that in your judgment you thought that limitation was not really necessary, but probably you thought you could not get more than that because of the prejudice against it. Do you believe there ought to be such a limitation?

Mr. VANDERLIP. I would not use the word "ought." There is no inherent right of a national bank to have branches. I think it would be desirable for the bank to have branches in the city in which it is located, and desirable not altogether from the bank's point of view, but desirable from the point of view of the citizens of the city, from the point of view of properly conducting the bank's business, and of giving to all the citizens of a large city the facilities of a large bank.

In regard to branches elsewhere than in the city where the bank is located I think, from the bank's point of view, the weight of evidence would be that it would react in its favor if it had a right to have branches anywhere. I think there are some factors of weakness on the side of a bank having branches, but on the whole I think many large banks would welcome the opportunity to have branches. I do not regard it as their right.

Senator BRISTOW. That would reduce the number of national banks, would it not?

Mr. VANDERLIP. I should think it would very much reduce the number of fly-by-night private banking institutions in a city like New York, where we have banks started that get the money of rather ignorant depositors and frequently fail to pay it back.

Senator BRISTOW. Why would it reduce that kind of banking especially?

Mr. VANDERLIP. Because it would bring the branch of a well-known bank in competition with a little private bank, or with a little State bank, or even with a small national bank, and it would give the strength of a great institution to that branch, just as much as to the parent bank.

Senator BRISTOW. Do not your State laws protect the people from these spurious banks?

Mr. VANDERLIP. No, sir; they do not protect the people from a private bank.

Senator NELSON. You have private banks in New York?

Mr. VANDERLIP. There are a great many private banks on the East Side of New York City.

Senator NELSON. Protected under your State law?

Mr. VANDERLIP. Yes, sir.

Senator NELSON. We have abolished them in Minnesota.

Senator BRISTOW. It would add to the power and strength of the large banks, would it not?

Mr. VANDERLIP. It would add to their size; I am not certain it would add to their power and strength. There is great strength in having all your resources under one roof.

Senator BRISTOW. Is not a big bank more powerful than a small one; does it not control vaster resources?

Mr. VANDERLIP. Yes; but a bank is not so very powerful, except to do the right thing, because, no matter how big you are, you are not powerful enough to make a bad loan.

Senator REED. And make it into a good one.

Mr. VANDERLIP. You could make the loan, but you could not collect it.

Senator SHAFROTH. I have known banks to make loans to parties who would pay nobody else but the bank. I have known of that frequently. Is that not a good influence, a good power to exercise?

Mr. VANDERLIP. The bank probably had collateral which made that necessary.

Senator SHAFROTH. I have seen them do it without collateral.

Mr. VANDERLIP. They probably wanted to establish some connections in the future. Of course, there was probably some hope of reward in it.

Senator BRISTOW. Do you think that the democratic system of banking that we now have—that is, where it is so widely diversified, where there are so many different individuals engaged in it, is it desirable or undesirable?

Mr. VANDERLIP. The whole question of the respective merits of a general branch banking system, and the present democratic principle, is a clearly debatable one, with some excellent reasons on each side.

The branch system will tend to equalize rates. It will take the funds of a low-interest community into a high-interest community. It tends toward stability. It gives to a new community a sound bank. It gives to the managers of branches experience that would be valuable in a new community, where otherwise a bank might be organized by people without banking experience.

The Democratic principle gives a local interest in the bank, gives the management to people who thoroughly understand local conditions and local character, and keeps the money of the community in the community where it originates, which may be good for the particular community, but is not, I would say, for the best good of the whole country if there is a surplus of funds there. Those, I think, are the chief arguments on each side.

Senator BRISTOW. Do you think it is desirable, especially in the banking business, that the bank should have the local friendship and good will of the people with whom it comes in daily contact in the management of its business?

Mr. VANDERLIP. It is always desirable for a bank to have the friendship and good will of the community where it is doing business. It is not at all impossible for a branch of a great bank to have that friendship and good will if that branch has been conducted in a broad-minded way.

Senator BRISTOW. But it would rob that bank largely of the individuality which it now has, would it not?

Mr. VANDERLIP. Undoubtedly. It makes it a part of that great bank.

Senator BRISTOW. It would be more mechanical in its operations than it is now and have less personality in it?



Mr. VANDERLIP. I would say, perhaps, it would be less sentimental.

Senator BRISTOW. Do you not think it would take from a great many men the opportunity of initiative in the building up of a business of their own?

Mr. VANDERLIP. I do. I think there is a distinct advantage on the Democratic side in interesting the best men in the local community in the conduct of the bank. That, perhaps, is the great argument for our present system as against the branch-bank system, and it is an argument of weight.

Senator BRISTOW. The branch banking system existing in European countries will result in very large banks?

Mr. VANDERLIP. There is one bank in England with 600 branches.

Senator BRISTOW. And how much in deposits?

Mr. VANDERLIP. About \$400,000,000. That is the London City and Midland, which is now the largest bank in the world.

Senator BRISTOW. And there are other banks that approach that bank?

Mr. VANDERLIP. Yes, sir; both in England and on the Continent.

Senator BRISTOW. What are the deposits of your bank?

Mr. VANDERLIP. Recently it has been running about \$250,000,000 gross and around \$200,000,000 net.

Senator BRISTOW. You have the largest bank in the United States?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. If the branch banking system that prevails in England prevailed here, it is fair to presume that your bank would be very much larger than it is now, would it not?

Mr. VANDERLIP. If we had embraced the branch-bank idea, I should say it is fair to presume it would be larger. You see, the banking resources of the country have grown very much more rapidly in percentage outside of New York City than in New York City.

Senator BRISTOW. There is another matter that I am interested in having your views on, Mr. Vanderlip. I have observed that the gentlemen who have been before us so far—the bankers—are very tenacious for commercial paper to be made a basis for currency, additional currency that is issued, and rediscount, etc. It seemed to me that they have more interest in the enactment of legislation that preserves or maintains or promotes the branch of the business which is conducted in that way, by short-time loans. Now, we have got just so much currency and money. Most of you gentlemen seem to resent the idea of long-time paper, mortgages, or securities of that kind from being used in this way, which is a distinct advantage to the security. It makes it more desirable and therefore will have a tendency to lower the rate of interest. The more of the country's resources or its money that is used in handling commercial paper, the smaller amount of it there will be used in these investment loans, will there not?

Mr. VANDERLIP. Yes, sir.

Senator BRISTOW. England is pointed to principally as a model country by some people. Now, in a country like ours, where we are a producing Nation more than a commercial Nation, do you think it is to the best interests of the country as a whole to favor the commercial end of our affairs more than the productive part of our affairs?

Mr. VANDERLIP. No question that has been asked would permit me to make an answer that I am clearer about or that I feel more certain that my answer will be right.

Any other conception than a conception that you say the bankers have generally given here, that commercial paper should be favored, is a misconception of the function of a bank. It is no part of the function of a bank holding deposits repayable on demand to use those deposits in any form that will tie them up in an unliquid shape. The test of a proper bank loan is the self-liquidating character of that loan within a reasonable period. I have already explained my view of a self-liquidating loan, and I think you are familiar with that. That is the test of sound banking. You can vary it to some extent by employing some of your capital in the purchase of real-estate mortgages, and, as I have said, the section that will permit a country bank to employ half of its capital in the purchase of such mortgages is not altogether sound, judged on a scientific basis, but I believe is not dangerous. A city bank can use some of its funds in investing in corporate securities. They are better for the purpose of investment than some real-estate mortgages, not because they are more liquid—in that respect they are exactly the same as a real-estate mortgage—but because they have a larger market. But neither is the ideal investment for a bank.

Banks are the great debtors of the country, not the creditors. You asked me what our deposits are, and my answer means that we have subject to demand between \$200,000,000 and \$250,000,000. We are the great debtor of this country. No institution in America owes so much money on demand as the National City Bank. Therefore the National City Bank must keep its investments in liquid form in order to meet that demand obligation. It is not because of any discrimination against the character of a real-estate mortgage that we do not take it, in so far as the safety of that mortgage goes. The discrimination comes entirely from the lack of liquidity, the fact that it can only be turned into money by selling it to somebody else; that it will not in course of manufacture or transportation or consumption or the distribution of goods in any form liquidate itself. That is the ideal loan, and when a bank gets away from that it is getting on dangerous ground. It can get away from that by putting some modest percentage of its capital into real-estate loans or by taking a note of a railroad corporation or some large industrial corporation, but any loan that will not liquidate itself is not ideal, and if it is taken to a large extent is a dangerous element in the assets of a bank.

Senator BRISTOW. Now, Mr. Vanderlip, I can see the force of your argument, if the bank's business is confined to these deposits due on demand. But, contrary to the law, as Senator Reed suggests, national banks have gone into the savings-bank business, and the money which is deposited in the savings department of these banks is used in the commercial business, and objection has been made here that to deprive them of the savings-bank department would be unjust, and that the provisions of this bill would take out of the commercial business the deposits in the savings department of the national bank.

Mr. VANDERLIP. You have raised a fair point there, and it is proper to take out of the commercial deposits deposits that are held on time and devote them to some other class of business. We have, of course,

great savings banks in New York. Their loans are wholly of the type of business that I am describing as undesirable business for a bank.

Senator WEEKS. For a commercial bank?

Mr. VANDERLIP. For a commercial bank; yes, sir. A savings bank in New York never invests in commercial paper; it always invests in real-estate mortgages or the bonds of corporations.

Senator NELSON. There is another thing, Senator Bristow. You seemed to make a distinction a while ago between what you call commerce and trade and production. Now, we must not overlook the fact that commerce is the handmaid of production. The moment the farmer takes his wheat to the elevator and sells it and it is shipped that moment it enters the field of commerce, so that commerce is the necessary handmaid and appendage of production. It would not do a manufacturer any good to manufacture goods and leave them in the warehouse. He has got to put them into trade, so that production and commerce must go together, hand in hand.

Senator BRISTOW. I understand that, Senator, but in a country as vast as ours is, with undeveloped resources, it seems to me, with my limited experience and observation and study of the subject, that we can not shape our financial legislation after that of a country like England, whose business is commerce and very little production. We have, it seems to me, got to take that into consideration and give great weight and encouragement to that line of investments that will result in production. If you do not have production here you will not have commerce, because we are not situated as England is. And that is why I have, in the questions I have been asking, given more consideration to these investment securities than others, because it seems to me, when the national banks, which are commercial banks, which are supposed to deal in commercial paper and credits that relate to commerce, are permitted to draw from the normal and natural resources which would go to the banks that handle this other kind of security, then you have got to give an opportunity for the national banks to invest in those securities, or you will discriminate against those securities. It is proposed here to permit trust companies and State banks, which can invest their funds in this other kind of securities, to become a part of this system. And they go into the commercial business. It seems to me that if we are going to merge all of these banks into this system so that they are all in commerce, then they ought to be permitted to go into the other line of investments, or you discriminate against the one and encourage the other. Do you think, Mr. Vanderlip, considering this from the standpoint of commerce and the handling of commercial paper, that a trust company or savings bank ought to be permitted to become a member of it?

Mr. VANDERLIP. I think it is extremely desirable to have all banks doing a commercial business become members. If trust companies do a commercial business in addition to their trust business they should, if possible, be induced to become members. There is no reason why a savings bank should be a member.

Senator O'GORMAN. There is no likelihood of a State savings bank seeking membership?

Mr. VANDERLIP. I should see no reason why they should, at all.

Senator O'GORMAN. Do you think it would be a wise policy to confer the benefits proposed in the new banking system upon the State banks and trust companies which are denied the national banks?

Mr. VANDERLIP. The corollary of that proposition is that national banks will surrender their charters and take out the more liberal State charters.

Senator O'GORMAN. What would you think of enlarging the present functions of the national banks in order to create some uniformity with respect to the functions of the two classes of banks that come in under this system?

Mr. VANDERLIP. I think that will be necessary if the national banking system is to be saved.

The CHAIRMAN. I would like to put in there at the end of Mr. Vanderlip's remarks an abstract of the powers exercised by each of the State banks under the 48 States, which will give the committee access to the precise powers which they enjoy.

Senator O'GORMAN. Suppose we should enlarge the power of the national banks and yet not confer all the powers now enjoyed by State institutions in order to bring about this uniformity that I speak of, do you think it would be practicable to have the reserve board establish by resolution certain restrictions and limitations upon the powers now given State institutions under State law?

Mr. VANDERLIP. It would be perfectly practicable, but the nature of those restrictions established by the board would determine whether or not the State banks joined the system. This particular matter should be covered by specific statute as completely as possible.

Senator O'GORMAN. I understand you would have to make it fairly attractive to the State banks.

Mr. VANDERLIP. If there were any practicable way of separating the functions of a commercial bank from those of a trust company, it would be desirable. I see no way in which you can do that. I think there are pretty sound arguments why those functions should not be united in the same institutions—not determining reasons why they should not, but there are some reasons why the functions of a trust company and a commercial bank should not be united. You are, however, facing the problem of driving your national banks to surrender their charters and take out State charters where those functions are united, and I am inclined to think you will have to liberalize the charter of the national banks to approximate the powers of the State bank or you will lose the national banks from the system.

Senator O'GORMAN. Other things being equal, what, in your judgment, is the advantage in having a national bank charter now instead of a State bank charter?

Mr. VANDERLIP. Do you mean now or under a provision of such a nature?

Senator O'GORMAN. Now; ignoring the pending bill.

Mr. VANDERLIP. There is some profit in taking out national-bank notes, and there is considerable profit in holding the deposits of other banks. There is some small sentimental reason in the confidence that the examination gives to a bank holding a national charter. Those are the principal reasons.

Senator O'GORMAN. Then, among other reasons, you think there is some prestige attached to the national charter?

Mr. VANDERLIP. I think there is in a small place. I do not think there is in a great city like New York. There was formerly some profit for banks in Government deposits, and there is now a little, with the interest rate charged, but not much.

Senator NELSON. There is one thing, if you will allow me, Senator, to call your attention to, in this connection, and that is while scientifically it may be proper enough, it may be the right thing, to separate a savings bank and a trust company from a commercial bank, it is utterly impossible in these small country towns, towns of 1,000 to 10,000 people. A bank there, in order to be successful, and to accommodate the wants of the people, must be prepared to do all kinds of that business—commercial business, savings business, and in some form a trust business—and a bank can not exist without doing it. There is not enough business in these towns to keep a bank alive doing just one kind of business. It has got to be done altogether. You realize that fact, do you not, Mr. Vanderlip?

Mr. VANDERLIP. Perfectly.

Senator O'GORMAN. Now, Mr. Vanderlip, what would you suggest, in your judgment, ought to be the modifications in the charter of the national bank with respect to the increased functions that might be conferred on national banks?

Mr. VANDERLIP. Senator Reed has already asked me that question, and I have suggested I would like to consider it carefully and communicate promptly with the committee my views.

Senator O'GORMAN. I would be very glad to have you do it.

Mr. VANDERLIP. I will do that promptly, after having given it careful consideration.

Senator O'GORMAN. I think, in the same connection, if you will give your views as to what powers now enjoyed by State banks and not conferred on national banks might be curtailed without making this system unattractive to the State banks, it would be beneficial to the committee.

Mr. VANDERLIP. Yes; I thing I comprehend the point.

Senator O'GORMAN. Of course, the general idea is, as I have already suggested, that if these two systems of banks are to come in under this new system, we must, as far as possible, have uniform privileges and rights enjoyed by State as well as by national banks.

Mr. VANDERLIP. Yes.

Senator BRISTOW. We have asked a number of witnesses to prepare amendments to the bill which they would recommend and furnish them to us for our consideration when we take the bill up. Why would it not be well, in connection with these requests, for Mr. Vanderlip to submit a modified bill as he thinks it ought to be.

Senator O'GORMAN. If you will take the time to do it, it will aid the committee.

Mr. VANDERLIP. I know of nothing so important for me to do. I will do it with great pleasure.

Senator NELSON. I want to suggest to you, Mr. Vanderlip, about the number of regional banks. If you do not have one, it seems to me if you have more than one it ought to be five; it ought to be one for each of the central reserve cities we now have, and one for New Orleans and one for San Francisco. That, it seems to me, ought to be the plan, if you have more than one. I think one is best, as you

do, but it seems to me if you do not have one, then you ought to have that distribution.

Mr. VANDERLIP. It would be vastly better than 12.

Senator O'GORMAN. I did not get that last question of yours, Senator Nelson.

Senator NELSON. I said if you limited the number of national banks, reduced it from 12 to a minor number—

Senator O'GORMAN (interposing). You mean regional banks?

Senator NELSON. Regional banks. I think the reduction should be to five, and I put it on this ground: We have three central reserve cities, New York, Chicago, and St. Louis. They should undoubtedly be regional bank centers. Now, in addition to that, I think New Orleans ought to be one place and San Francisco, on the coast, the other. That is my notion about it.

Senator O'GORMAN. In your judgment, Mr. Vanderlip, would five regional banks, under the general features of this system, be preferred to one national discounting reserve bank here in Washington, with branches throughout the country?

Mr. VANDERLIP. No; I would much prefer one.

Senator O'GORMAN. Why?

Mr. VANDERLIP. I think there are profound reasons.

Senator O'GORMAN. Will you state them, if you have not already done so?

Mr. VANDERLIP. I have already gone into that pretty fully.

Senator O'GORMAN. Then I will not ask you to state it again.

Senator BRISTOW. As I understand, I think, having your question in mind, Senator O'Gorman, Mr. Vanderlip suggested that one would be preferable, but he did not understand fully just the kind of Federal reserve and discount bank that you suggested to one or two other witnesses. Senator O'Gorman suggested on another occasion, as I remember it, that we have one Federal reserve and rediscount bank, supervised by this board.

Senator O'GORMAN. By a Government board, with a supervisory council for the bank.

Mr. VANDERLIP. That brings a new element into the matter. That makes the Government officials judges of the paper that is being rediscounted, and I would disapprove of that.

Senator BRISTOW. How is that?

Mr. VANDERLIP. I say that brings a new element into the situation, that makes the Government officials judges of the paper that is to be rediscounted. In the system that is built up in this bill there is a board of nine men, three of whom are bankers, directly elected by bankers, and three of whom are business men, directly elected by bankers, to pass on the paper that the central reserve banks are to rediscount. That I regard as a very important feature, that you shall have bankers pass on this paper. I think there would be grave objections to having Governmental officials passing on the paper offered for rediscount. Those objections are on the ground of the training and the experience of the officials.

Senator BRISTOW. Well, I can see the force of that suggestion. But suppose these Government officials are bankers that managed the central banks; that it is their business to run that bank, and the branches are conducted by men who are bankers and whose business it is to pass upon the paper which they discount.

Senator O'GORMAN. And are familiar with the conditions of the several localities.

Senator BRISTOW. And must be familiar with the conditions. Do you not believe that if this board has the responsibility of the managing of the Federal reserve bank, and comes in relation with the banks of the country, with which it is doing business, that you will get better service out of them than if they are simply a board here supervising at a distance, which they necessarily would, the operations of the 12 banks, and to whom complaints are made and controversies are taken up and discussed? They necessarily would not be familiar, as they should be, with the questions that will come before them.

Mr. VANDERLIP. You will get better service out of your Federal reserve board; yes; but the total of service you get out of the Federal reserve board and out of the board of the regional banks, as it is provided to elect them, by the bankers, six out of nine, at least, would be greater than the service you would get out of such a board as you suggest.

Senator BRISTOW. What part of the service which these gentlemen would render would be more efficient, do you think—the duties that they would perform? There would be, we will say, a branch at Kansas City, this Federal reserve and discount bank, and probably one at Wichita, Kans., and one at Omaha, where the reserve banks are now. The business of these men in charge of these Federal branches would be to accommodate the banks in the community, whether they were members or not.

Mr. VANDERLIP. You have very well outlined the objections to the branch banking system in the earlier questions that you asked. Could you not apply those same objections to such a proposal as you now make?

Senator BRISTOW. No; it is not a banking institution, except it deals with banks and banks only, and it is there to help the banks when they need help upon their application.

Mr. VANDERLIP. And to be a judge of the credits of those banks and of the collateral they offer. I think a board selected from among bankers—made up of practical bankers in part—will render that service and will execute that judgment better than will a board of Government officials.

Senator BRISTOW. Even if those officials were the same bankers?

Mr. VANDERLIP. Yes; even if the officials were the same bankers, because they will become dissociated from the active work. Of course, if they were the same bankers, certainly for a time they would probably perform the functions in the same way, but they would not be the same bankers. You can be pretty certain of that.

Senator NELSON. Let me suggest what I think would be a solution to the matter suggested by Senator O'Gorman: Have one central reserve bank, under control of the Government boards, and have a discount committee; have provision made for a discount committee, consisting of nine, appointed in the same manner as these managers of the regional banks, and let that committee pass upon discounts, subject, as the regional banks are now, to the supervision of the central board. Could it not be solved in that way?

Mr. VANDERLIP. That seems a very sound and practical suggestion, to meet the partic

Senator O'GORMAN. What would be the difference in the judgment of those nine men, constituting the so-called discount committee, sitting here in Washington, and the judgment of seven men, constituting the officers of the Federal reserve board?

Mr. VANDERLIP. I do not think you have understood the suggestion as I understood it at least. The suggestion is that this discount committee is composed of bankers, elected by bankers, but its function is only to pass on the question of credit, and the Federal board would be constituted as you suggest, and would be the power operating the bank.

Senator NELSON. The discount committee would be constituted in the same number as the managers of the regional banks. That is, there would be three of the discount committee Government appointees and six would be bank appointees.

Mr. VANDERLIP. And the duty of that discount committee would be to pass on the character of the collateral offered, and the Federal board would then take up the question of loans.

Senator BRISTOW. Now, Mr. Vanderlip, I am going to be perfectly frank with you as you have been with the committee. What I am trying to get away from is the power which certain great dominating interests in this country have to veto security that I think is good but which interferes with their business and their interests, and I do not believe there would be any objection to a central bank in the United States if there was not a belief that I think well-grounded and wholly justified, with all due respect to your opinion, that there are certain interests in this country that do control credits and can veto a legitimate and proper loan, if that loan will interfere with their interests. I may be mistaken, but I believe that nine-tenths of those who are studying the question believe a central bank with branches, that would not interfere with the legitimate conduct of the banking business we have, but supplement and strengthen it, would be very desirable; and if it could be gotten away from any possibility of such control, so that no doubt can rest in the mind of one of suspicious mind, I think we would all be for it.

Senator NELSON. Now, you see under this plan, Senator Bristow, of a central institution, the discount committee would pass on the quality of the paper, but whether the loan should be granted by the bank and currency issued, would be under the control of this general board.

Senator HITCHCOCK. Senator Bristow, let me ask you a question. In referring to the loans that you have in mind there, are you not forgetting that those loans are generally for the purpose of big enterprises, and are in the form of a permanent advance on bonds, whereas the only paper that can be put up with the reserve bank, whether a regional bank or a central bank, is commercial paper which is liquidating?

Senator BRISTOW. Yes; but you know I have very pronounced objections to the plan that is outlined here in limiting the paper that is to be given advantages under this system to this commercial paper. I think that is unjust and discriminatory against other investments.

Senator HITCHCOCK. What I object to is the 90-day paper, which is specified in this bill.

Senator BRISTOW. Yes.



Senator HITCHCOCK. You feel and I feel, as we both live in the West, that we have commercial paper out in our region which I might say is indigenous, which is characteristic of our region. It is much longer than 90 days. It is 4, 5, or 6 months paper—

Senator NELSON (interposing). Or for a year.

Senator HITCHCOCK. Or it may be for a longer time. But it is to all intents and purposes commercial paper, by reason of the fact that it liquidates itself out of the transaction from which it arises—that is, paper which represents loans to men who have cattle and feed those cattle during the winter and market them in the spring, and the funds thus received liquidate the paper.

I think if the bill is so extended as to cover that class of paper it would be an improvement.

Senator BRISTOW. That would be a very great improvement. I admit that. I will not take up the matter of the subtreasuries, because that is Senator Hitchcock's special notion, and I think a very good one, and he can present that very much better than I can.

I am very much interested in the statements made by Mr. Fowler before the committee the other day, and the statement which he suggested, if it were practicable, would seem to me to be a very good one—that is, of leaving the banking situation just as it is, so far as the organization of the banks goes, and permitting a bank to issue currency.

Senator NELSON. On its assets.

Senator BRISTOW. On its assets, when it is needed. And he illustrated it, when being interrogated by Senator Nelson. His idea was in this way, that if a customer came to a bank and wanted to borrow \$10,000, he gave his note for the \$10,000. That was a loan which the bank was perfectly willing to make.

Senator NELSON. A good loan.

Senator BRISTOW. A good loan. He wanted a part of it in cash and a part of it to leave subject to check. He took \$5,000 in currency and left \$5,000 subject to check, and he took a check book to check against his account, and the currency he took was the bank's notes which, according to Mr. Fowler's system, were secured by a 5 per cent deposit with the Government—a lien on the assets of the bank and on its assets, the capital stock and so forth, and which he pronounced would be perfectly good. This 5 per cent fund that was collected was to be a guaranty fund against these notes collected in the Treasury, and his idea was that only so much currency would be used as the commerce of the country demanded, and that it would be automatic—if a man wanted currency he could get it. What would you think of a system like that?

Mr. VANDERLIP. The last proposition is so perfectly true that I wish you could all recognize it, that there would be only so much currency used as is wanted. I have referred to it a number of times, and I just want to emphasize that point. The most important thing that we need, however, the thing I referred to when I began this examination yesterday, is the mobilization of the reserves. Such a plan as you outline there makes no reference to it. The next thing is the elasticity of currency—an important thing, but not so important as mobility of reserves—the amassing of reserves in a single reservoir. That is what you must get in some form into a bill if it is to be correct. That expression makes me think that I heard my-

self severely criticized in the Senate during recess for having said in an interview that you must do this or that. Of course you know when I say you must do a thing, I mean you must do it to make the bill harmonize with what my views are of correct legislation. I do not sit here or talk to newspaper reporters, and say that the Senate of the United States must do this or that. I have a little sense left, and certainly enough to guard me from such a foolish position.

Senator BRISTOW. I was interested in the suggestion you made yesterday, which conveyed the idea to me that we ought to reduce the amount of national-bank notes that are now out, if this system is adopted, because any additional notes would make too much currency.

Mr. VANDERLIP. We certainly have currency enough for a normal period. It is only in the exigencies of a crop-moving period that we need any more currency. Unless you will reduce the bank-note currency we now have, you will not be able to provide true and complete elasticity by means of your new note issue.

Senator BRISTOW. You think the new note issue would not be taken out?

Mr. VANDERLIP. Yes; it would not be taken out, except for the peak of the load, except for that season where an excess is needed.

Senator BRISTOW. What harm comes—you say you would take it out for the peak and drop it after the work it does is ended. What harm is there in stopping there?

Mr. VANDERLIP. One of the harms is that these several reserve banks ought to have the earnings that would come from such ability to issue currency. Another of the harms is, I am inclined to believe, that we have a redundant currency at certain seasons. You might challenge me to prove that, and I might have some difficulty in proving it. Certainly if there is a variation of \$200,000,000 to \$300,000,000 in our notes, then we are either redundant at one season or very scant at another. Now, we are going through the crop-moving season without any strain whatever for currency. Apparently we have ample currency to go through this crop-moving season. We have had some addition to it by the deposits which the Secretary of the Treasury has made, but if we had currency enough to conduct business at this season of the year, we have altogether too much currency to conduct business next March. We can not get away from that. There is where the harm comes. That is where you would fail to get true elasticity unless you took away some notes and made room for new notes.

Senator HITCHCOCK. If the currency is redundant next month, will not the inevitable result be the exportation of gold?

Mr. VANDERLIP. That is certainly the tendency.

Senator HITCHCOCK. Will not that relieve the situation?

Mr. VANDERLIP. It will relieve it; yes.

Senator HITCHCOCK. And will not that gold come back to us again, when the stress on the currency is there?

Mr. VANDERLIP. Yes; except that it does not flow with perfect freedom. There is harm done to the trade in the exporting and importing movement. It would be so much better for trade to have you retire the notes than to have a movement of the gold, and then have the difficult conditions which attend the bringing of that gold back. We can issue a bank note very easily; we can not always import gold easily. We can retire that note very easily, and it is ex-

pensive to export gold. Expansion and contraction should be provided for in the notes, and not in the expansion and contraction of the volume of gold.

Senator HITCHCOCK. With the volume of currency depending wholly on the commercial paper, what would guarantee that against inflation?

Mr. VANDERLIP. The guaranty of redemption, the fact that the note does not count in reserves, but will be turned in for redemption by the bank as soon as it comes in and the certainty that there is a no more fixed thing, no quantity that you can influence less by your legislative acts than the amount of money people will carry in their pockets. You might start with that as a fixed thing, but you really haven't anything to do with it.

Senator HITCHCOCK. You have already stated to the committee these notes will be accepted by 17,000 State banks as reserves.

Mr. VANDERLIP. There is one of the troubles and weaknesses which I have no suggestion for removing, unless you can bring State banks into the system.

Senator HITCHCOCK. Some even advocate making them available for national banks as reserves.

Mr. VANDERLIP. I can not agree with that view.

Senator HITCHCOCK. And is there not some danger, in a currency based on commercial paper, that at certain times the country will become very venturesome and the demands for loans extensive?

Mr. VANDERLIP. It is not money in the hands of the people that makes the country more venturesome; it is the ability to obtain credit. If this bill were drawn so as to be dangerous on the side of the expansion of credit, then I would say, "Beware." Now, it is so drawn that there can be a great expansion of credit, but I do not believe it will be too great, because I do not believe the bankers will permit this power to be unwisely exercised any more than at the present moment. The national banks have 60 or 70 millions in excess reserves, but they do not loan because they have that excess reserve.

Senator HITCHCOCK. Is it a matter of caution, of timidity, that now restrains the bank, often, from loaning money when there is quite an urgent demand? And if you take away that timidity, by giving a bank a resort it can go to with commercial paper, won't you remove the restraint and throw down the bars and permit a bank to lend money to borrowers to whom it would not lend if watching its reserves?

Mr. VANDERLIP. Undoubtedly a bank will feel freer if it has a central reserve bank to go to to rediscount than it does now. You have to depend on the good judgment and conservativeness of that banker. If he feels he can rediscount any time, anything he has, and he is a reckless man, he will loan too much. But you will have as a governor the power of control of your regional reserve bank board, and of the Federal board. That is why I said that there is not an authority given to this Federal reserve board which it ought not to have. My objection is to the constitution of the board and not to the authority. If the bankers in a locality are getting reckless, if they are loaning more because they can rediscount than is wise for them to loan, there ought to be some authority higher up which can put a restraint on them.

Senator HITCHCOCK. Would you have it in the reserve bank?

Mr. VANDERLIP. It will be in the reserve bank, and I would have it all the way up. I can well imagine, with as many as 12 reserve banks, you might find one with the territory represented getting less conservative than it should be and you might need a power higher up to control that.

Senator HITCHCOCK. Do you think there ought to be embedded in this law any guaranty to the individual bank that it can get discounts to any given limit?

Mr. VANDERLIP. It is impracticable. You have got to leave that discretionary.

Senator HITCHCOCK. You would allow, then, the Federal reserve bank the full discretionary power to say to one man from a certain town, "We won't discount any of your paper," and to another man across the street, "We will discount half of your portfolio."

Mr. VANDERLIP. You have got to leave that power to the reserve board, I think. You may say it will treat one banker unfairly. On the other hand, you might say if a bank knows, under any conditions, it can get rediscounts, it will act unwisely. Of the two, I will take the chance of unfairness, because I do not believe there will be any unfairness. I am a great believer in the fairness and honesty of people in general, and certainly the fairness of people in responsible positions.

Senator HITCHCOCK. I want to give you an illustration of the unfairness of persons holding a responsible position. I suppose the character of the men that run the railroads of the country is as high as the men who run the banks of the country, and yet one of the most outrageous discriminations grew up in the railroad world, in which the States and Congress had to take a hand. They were saying to one shipper, "We will charge you one rate," and to another shipper, "We will charge you another rate." They would say to one passenger, "You pay full rates," and to another passenger, "You go free." The law had to step in for the protection of the men and compel equal treatment. So should not the law step in and say to these banks that they shall give equal treatment?

Mr. VANDERLIP. You have provided for the law to step in by creating this Federal reserve board. Of course, back of the law that you speak of, there first had really to grow up a new body of ethics. They were new problems. We had gone on a great many years supposing when we sold wholesale we sold cheaper, and men's minds did not grasp the ethics of that situation, and that is one of the troubles to-day. We have developed industry and we have gotten many new elements in our social system. We are developing new ethics, and that is part of this radicalism we are talking about. We are developing a new code of ethics that did not exist before our time, and we ought to have patience with one another about that.

Senator HITCHCOCK. Do you think any injury would come if the law provided that the reserve bank should rediscount the notes of a bank in any community to an extent, say, of its capital stock, providing the notes were good?

Mr. VANDERLIP. Right there—providing the notes are good. Who is to be the judge?

Senator HITCHCOCK. I will say, without that provision, discount the notes.

Mr. VANDERLIP. I would certainly think a loan under compulsion, where you could not scan the credit, would be an impossible thing.

Senator HITCHCOCK. These banks are all under constant inspection, and the law provides an inspection of these regional reserve banks.

Mr. VANDERLIP. Nevertheless, you can not trust to inspection. Anybody who ran a bank recklessly might get bad paper in its portfolio, which could be offered for rediscount.

Senator REED. Would not that leave a bank in dire straits, in this sort of condition: It could take, say, \$100,000 of its absolutely worthless paper and bring it up to the Federal reserve bank, and compel the Federal reserve board to cash that absolutely worthless paper, where the bank itself was tottering to its fall?

Mr. VANDERLIP. Oh, yes. There must be the right of discretion by the loaners of money.

Senator HITCHCOCK. In the first place, a bank has one tenth of capital already invested.

Mr. VANDERLIP. Yes.

Senator HITCHCOCK. It has its reserves impounded to the extent of nearly one-half. Can you conceive a condition under which it should not be assured of anything at all as the result of its joining the enterprise?

Mr. VANDERLIP. Practically I can not conceive that there would ever be a time a properly run bank would not be able to borrow. I think the reserve banks will be run with wisdom, discretion, and fairness and any bank will be able to rediscount. They must hold themselves in such a position so they will have the power to rediscount.

Senator HITCHCOCK. Now, let me ask you this question, Mr. Vanderlip: Suppose the reserve bank rediscounts half of the portfolio of the bank. Say it discounts half a million dollars of its portfolio and it gives it that line of discount. A bank across the street, of the same size, it gives one-tenth of the portfolio, worth \$100,000. What advantage does this give to the favored bank? Is not it a very large advantage? Would not it result in enabling it to get control of the business?

Mr. VANDERLIP. It would be a great advantage for one bank to be able to discount half of its portfolio while the other was permitted to discount only one-tenth. There certainly would be just grounds for complaint. If the two institutions were on all fours, a complaint to the Federal board would certainly bring action, but I do not believe any board of directors elected to the Federal reserve bank would discriminate in that way. They would be fair-minded men. That would be a rank, gross discrimination if the two banks were on all fours. Nevertheless, I think they ought to have the power to permit one bank to discount half its portfolio and another bank to be restricted to one-tenth if the other bank was being run in a way not to warrant the discount.

Senator HITCHCOCK. Then you would place no limit at all on the amount of discount that might be made for a single bank?

Mr. VANDERLIP. No, sir.

Senator HITCHCOCK. You would leave that discretionary with the board?

Mr. VANDERLIP. I think it can well be left to the board.

Senator HITCHCOCK. What is the motive for that? What is the reason for having any limit to the amount of discount?

Mr. VANDERLIP. If you want to have some limit, I would put that on for fear there might be inflation. That would be the motive. I would limit it to twice the capital and surplus—something like that—which would be a point that no bank ought to reach, and probably would not.

Senator HITCHCOCK. I am glad to hear you say so. I think there ought to be some limit.

Mr. VANDERLIP. I think it would be a desirable thing to put a limit that was large enough.

Senator REED. Put a limit on the extent of credit, but not upon the right to refuse to grant the credit?

Mr. VANDERLIP. No; I should leave the right to refuse with the board.

Senator REED. That is what I say.

Senator O'GORMAN. You would feel satisfied that if the power of the officer of the reserve bank was improperly used that the Federal reserve board, on appeal, would correct the injustice?

Mr. VANDERLIP. Yes, sir.

Senator O'GORMAN. And perhaps remove the offending officer of the regional bank?

Mr. VANDERLIP. I should think it would be very proper.

Senator POMERENE. There has got to be a discretion lodged somewhere.

Mr. VANDERLIP. I think so.

Senator O'GORMAN. I have only one question further to put to you, Mr. Vanderlip. Yesterday you said, I think, that the plan contained in this bill, to issue Government notes, is unscientific. I do not know whether you amplified that viewpoint or not. If you have not, I should be glad to hear from you further, why it is unscientific.

Mr. VANDERLIP. The note is really the obligation of the bank. It is secured by segregation of the bank's assets, in the form of commercial paper. It ought to have almost the same relation to the bank that a deposit balance of the bank has. It is a demand obligation of the bank. It is not a Government note; it does not pretend to be that, although it is issued and bears the name of the Government. Its whole security lies in the bank, in the segregated assets, in the reserve held against it, and in the superior lien which it has upon all the assets. I see no reason why the Government should have any relation to that note in the way of a guarantor. The Government will have an outstanding obligation with no gold cover back of it. Except for the 5 per cent redemption fund which the bank deposits, the only resource which the Government has is by turning to the bank, and the enforcement of the lien on its assets. And it seems to me entirely improper that the Government should be the maker of this note, or the guarantor of it. Indeed, I think it improper that it should receive so-called interest for it, as all of the profits of this bank are to come in the hands of the Government eventually.

Senator O'GORMAN. It is not anticipated under the system planned that there will be a profit beyond 5 per cent. As Senator Owen has very properly phrased it on other occasions, it is really to be an eleemosynary institution, and there is to be no motive to earn anything beyond the guaranteed 5 or 6 per cent.

Mr. VANDERLIP. I can see no more reason for the Government to guarantee one of these liabilities of a bank, in the form of a note, than to guarantee a deposit. The note is fully guaranteed, I believe.

Senator O'GORMAN. In other words, you would not expect the Government, even under this plan, to take the risk?

Mr. VANDERLIP. No. If it is not safe I think the Government ought not to take a risk, and I think if it is safe it need not take the risk.

Senator O'GORMAN. And you feel if it is safe, the person dealing with the regional bank, ought to be satisfied with it?

Mr. VANDERLIP. Certainly.

The CHAIRMAN. I think it my duty to remind the committee that only an hour and a half remains, and there are some gentlemen here from Iowa whom we promised to hear this afternoon.

Senator HITCHCOCK. There is one more question I would like to ask. I see under section 6 of this bill when a bank becomes insolvent and a receiver is appointed, the stock held by it shall be canceled and the balance, after deducting from the amount of its cash paid subscriptions all debts due by such insolvent bank, shall be paid to the receiver of the insolvent bank.

Mr. VANDERLIP. That would seem to be a proper provision.

Senator HITCHCOCK. So that the bank would have some security—the reserve bank would have some security.

Mr. VANDERLIP. Yes; for a forced loan you speak of it would have to depend on the stock value and the security of whatever reserves are held.

Senator NELSON. And whatever the subscription will be.

Mr. VANDERLIP. And whatever the subscription will be also.

Senator HITCHCOCK. Now, I want to ask you whether you do not think it better for the reserve bank occasionally to suffer a possible loss, as a result of a certain commercial paper turning out to be deficient, than to leave the banks absolutely without any assurance that they will get relief even to the extent of their capital?

Senator NELSON. You mean the member banks?

Senator HITCHCOCK. The member banks.

Mr. VANDERLIP. It would probably be safe enough to say that the reserve bank shall loan to an amount equal to the stock subscription and the reserves which they hold. I do not consider it at all necessary. I do not believe any bank would be afraid it would receive no consideration at the hands of the board at the Federal reserve bank—that there would be such discrimination as you indicate there might possibly exist. I can not conceive that.

Senator HITCHCOCK. You mentioned a moment ago in such a case the bank might appeal to the Federal board. But what chance do you think there would be, after a bank had perhaps suffered a loss and it had gone to the reserve bank for relief, appealing to Washington under those circumstances?

Mr. VANDERLIP. The appeal would be in the nature of a post-mortem communication.

Senator HITCHCOCK. Not only that, but the very fact that the bank had been turned down at the reserve bank would intensify the fear in the community, and might result in greater loss.

Mr. VANDERLIP. It would not be turned down under those circumstances if it had any proper collateral.

Senator HITCHCOCK. Why not say so in the act?

Mr. VANDERLIP. Because it might not have proper collateral, and if you leave it discretionary as to whether or not the collateral is proper, you leave the whole thing discretionary.

Senator HITCHCOCK. I do not know. I think, as I said formerly, you ought to specify the whole thing in the bill and leave as little as possible to the discretion of the officers.

Mr. VANDERLIP. May I be excused?

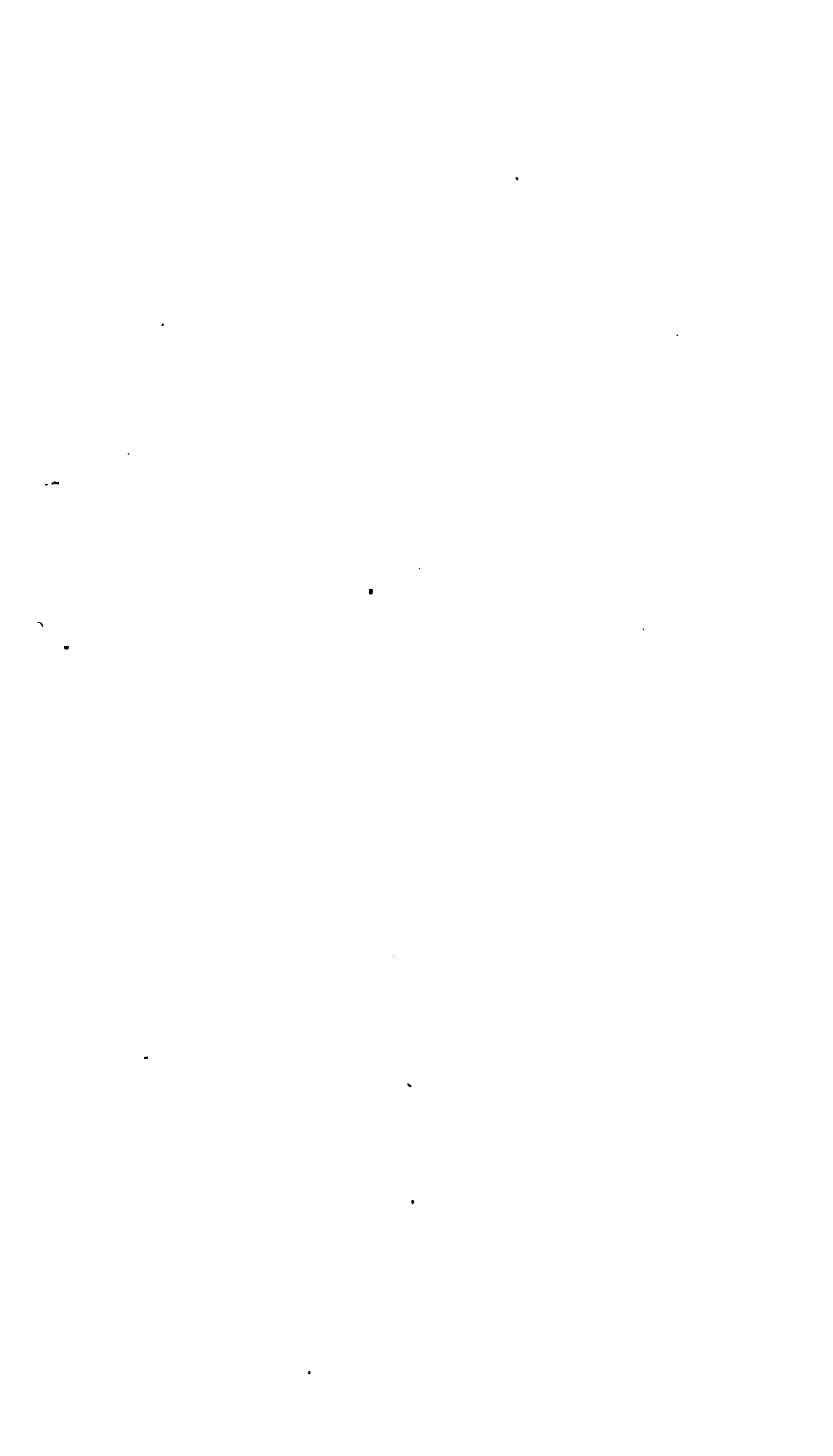
The CHAIRMAN. Yes; we are much obliged to you.

Mr. VANDERLIP. I thank you.













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